

BALANCING THE THREE E'S, EQUALITY, EFFICIENCY AND EMPLOYMENT

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OECD countries throughout the world have been required to address the critical questions that centre around social and economic policy balance. The post-war achievements of equality and employment symmetry have proved to be somewhat illusory during the late 1980s and particularly the 90s. The lower growth rates during the last two decades in OECD countries, the increasing competitiveness of international markets, post industrial labour market changes and the consequent rising rate of unemployment have all taken their toll. They have created anxieties concerning the sustainability of social protection systems and other social policy initiatives.

Alongside these broad economic changes, a number of life cycle and family structure changes, such as the increasing numbers of single parent households, greater female participation in the workforce and the growing proportion of elderly persons, have led analysts to ask fundamental questions concerning the effectiveness and rationale of the current social protection systems. The combination of the external economic and the internal demographic pressures have created a climate for two distinct rallying cries.

The first is the call to reduce social policy commitment by minimising the protection systems and lowering labour costs and protective labour legislation. The rationale behind this is, firstly, that costly social payments create disincentives to work, increase taxes and as a result stunt entrepreneurial development. Secondly, high wages and protective labour legislation are too costly for employers, who reduce their risks and high unemployment results. In this scenario equality measures are sacrificed for efficiency and employment.

The second call is for a renewed development of social protection systems and other social policies that have adapted to the new market and demographic environment and are sustainable. The rationale here is that citizenship should entitle all members of a given society to at least an adequate standard of living that is affordable by that society, which in turn will preserve equality and the opportunity for all to gain the necessary skills and experience to participate in the economy. In this scenario employment may be sacrificed, at least for a period, for equality and efficiency. The goal however, is to balance the three E's.

For the purposes of this paper, we will refer to the former call as the **neo-liberal** approach and the latter as the **social democratic** approach. We will refer to the three E's as they are conventionally applied in social policy literature, defining them in the following manner:

- Equality refers to an egalitarian approach to social policy that ensures all citizens can comfortably access essential resources, and minimises extreme differences, both in terms of opportunities and outcomes. The provision of affordable and accessible

healthcare through Māori Health Clinics, for example, constitutes an equality-enhancing opportunity. The provision of affordable state housing for those who cannot compete in the housing market constitutes an equality-enhancing outcome.

- Efficiency refers to both the allocation of resources and the productive use of those resources. Outcomes in this sense, need to be seen in terms of the totality of the social policy area. An efficient outcome in health, for example, involves both allocative and productive efficiency. The allocative aspects refer to effectively resourcing primary and secondary healthcare to achieve the planned outputs, such as a speedy access for all, effective educational and preventive services, successful high quality treatment and rehabilitation. The productive aspects refer to maximising those outputs from the given inputs.
- Employment refers to paid work that provides some degree of stability and sufficient earnings to enable employees to comfortably access essential resources. The maximum employment gain is "full employment" for all those able to work. High unemployment is the antithesis.

THE NEW ZEALAND APPROACH

New Zealand, along with Britain and the US, has significantly reduced social protection and adopted a deregulatory, market-driven strategy characteristic of the neo-liberal approach (Shirley 1990, Boston and Dalziel 1992, Bollard 1994, Castles 1996, Esping-Andersen 1996, Kelsey 1996, Easton 1997a). Adaptation to the difficult economic conditions has involved a weakening of the trade unions, increased labour market and wage flexibility and an erosion of social protection programmes. From 1985 onwards, New Zealand embarked on an economic programme that opened the domestic market to international competition, deregulated the labour market and financial sector and transferred government owned trading activities, through corporatisation into the private sector.

As a result, it is generally agreed that New Zealand developed a much more efficient and robust economy. The economy grew, while inflation and unemployment reduced to the extent that New Zealand's economic accomplishments were recognised internationally (OECD 1996, IMF 1996). Greater efficiency and employment was certainly achieved, but at the cost of equality losses. Furthermore, the employment gains stopped at a 6% unemployment threshold and have begun to rise again (Statistics New Zealand 1992-97). Export growth momentum has dropped and the current accounts deficit has become alarmingly high (Statistics New Zealand 1997). Although Treasury forecasts sustainable fiscal surpluses (Peters 1998), independent economic research groups are predicting surpluses to be much lower than the Treasury forecasts. BERL (Business Economic Research Limited) forecasts a fiscal surplus that is one third the size of Treasury's in 1999, and two thirds for the year 2000 (BERL 1998). Appearing in the same publication, the consensus of all recognised forecasters (which includes Treasury's forecast) is also

well below the Treasury's prediction for both years. BERL also forecasts a rise in unemployment above 7% this year, that will remain static over the next three years.

Thus, it is fair to say that the New Zealand economy has matured to become much more efficient and robust, although some of the earlier gains are threatened. The social and equality costs have been great, though. The labour market deregulation (Employment Contracts Act 1991) and the major social policy reforms that involved benefit cuts, market rents on state houses, increased user-pays charges in health and education, and fundamental changes in accident compensation (Richardson 1991), have profoundly altered the social environment. Further explanation of some of the impacts follows in the next section.

The critical social policy question that arises out of these reforms is, "Do economic gains continue to require the social losses?" Or, to put it another way, "Is it necessary to sacrifice equality for efficiency and employment?"

The question is very important because the post-war balance of equality and employment in OECD countries was an achievement of considerable proportion, that brought to an end the type of poverty that characterised the hardship in nineteenth century Europe and the Great Depression of the 1930s. The question is also important because, generally speaking, the European countries (apart from Britain) have adopted a social democratic approach, and have not been prepared to part with their post-war social gains. Only marginal adjustments to social protection payments and labour market regulation have been made (OECD 1994, Esping-Andersen 1997). For some of these countries, like Belgium, France and Germany, unemployment rates are considerably higher than New Zealand, but contrary to popular myths, this is not so for a number of other European countries. Austria, Switzerland and Norway have unemployment rates that are considerably less. For the Netherlands, unemployment has been much the same as in New Zealand (OECD 1997a).

The question also suggests two other questions which will be addressed in this paper. These are, "Can gains in employment eventually break the 6% unemployment barrier?" and "Do the social losses eventually create economic losses?"

COUNTING THE LOSSES IN EQUALITY

It is too early yet to provide a comprehensive analysis of the equality losses over the period of the reforms. However, sufficient information is available to provide an indicative picture of impacts on incomes and key spending items like housing. The Joseph Rowntree Foundation in Britain set up a group of experts to inquire into income and wealth, primarily in Britain. In an early part of the report, a comparison of international income inequality trends noted, "income inequality has been growing more rapidly in the UK than in other countries except New Zealand" (Barclay 1995:14). The income data for New Zealand covered the early period of the reforms 1985-1989. This

was prior to the major social policy reforms of the early 1990s, which can be expected to have accelerated that trend.

In a study of the radical social policy changes that took place in 1991 (Waldegrave and Frater 1991), the authors attempted to quantify the income and expenditure impact of the combination of benefit reductions, housing costs, user pay charges in health and education, and the accident compensation changes on different households. They also endeavoured to calculate the total impact as a percentage of household disposable income prior to the budget changes.

The results indicated that the households on the lowest incomes made the largest dollar contributions. If there were no children in the household, they lost around \$2,000 per annum after tax income. If there were children, they lost around \$3,500. Middle-income groups, by contrast, lost an average around \$900 per annum and the wealthiest 20% of the population lost much the same. As a percentage of disposable household income prior to the reforms, the poorest 20% lost around 24% of their income, whereas middle-income groups lost around 4% and the wealthiest 20% only lost 2% of their income. In every category, households with children lost proportionately more. The social policy changes of 1991, in the light of this study, clearly accelerated income inequality in New Zealand.

There have been two quite different approaches to the measurement of poverty in New Zealand since the 1991 social policy reforms. The strengths and weaknesses of the two approaches have been debated in this and other journals (Stephens et al. 1995, Easton 1995, Waldegrave et al. 1996, Easton 1997b, Stephens et al. 1997, Waldegrave et al. 1997). This article is not the place to further that debate, no matter how tempting! Of more significance here, are the results of the two studies. Easton's work began in the seventies and thus his measure tracks poverty over time, before and after the reforms. Stephens, Waldegrave and Frater of the New Zealand Poverty Measurement Project (NZPMP) produced their first results in 1993, and have been tracking poverty over time since then.

Easton found that households in poverty as a proportion of all households in New Zealand, grew from 11.6% in 1981/82 to 12.9% in 1989/90. After the social policy changes, it increased substantially to 16.3% in the 1992/93 year. In the same year the NZPMP found 18.5% of households to be below the poverty line in their study. Easton found 29% of all children were in the lowest 20% of household incomes, whereas the NZPMP found 33% of all children below the poverty line. Although the percentages differed, both studies found single parent households with children to have the largest proportion who were poor of all the different household types. The studies did not agree on the proportions for other family types. Easton considered the severity of poverty as measured by the poverty gap, i.e. the amount of income required to bring the poor up to the poverty line, to be 29.5% of his poverty line, not dissimilar from the NZPMP who found the poverty gap to be 29.7% of their line.

Though these two approaches differ, many of their findings are similar. Both show high levels of poverty in New Zealand. The NZPMP found that the incidence of poverty was 2½

times greater among Māori and 3½ times greater among Pacific Island families than it was among Pākehā households. Pākehā households however, made up 66% of all poor households. They also found housing costs to be the largest expenditure item for poor households. Of the \$826 million that poor households collectively fell short of the poverty threshold, \$518 million consisted of housing costs.

The growth in foodbanks, for people who are struggling to afford adequate food, gives further evidence of the type of hardship many experienced. In 1989, the Auckland metropolitan area had only 16 foodbanks, but by 1994 there were 130 (Mackay 1995). The client list for Salvation Army foodbanks grew from 1,226 in 1990 to 14,906 in 1994 (Gunby 1996). It was estimated by the Department of Social Welfare that 40,000 food parcels were provided each month by 365 foodbanks in New Zealand during 1994, and that around \$24 million worth of assistance was provided that year (Mackay 1995). During the 1990s foodbanks have become an institutionalised part of New Zealand society.

As noted above, a comprehensive analysis of the erosion of social protection systems and its impact on equality in New Zealand, has not yet been attempted, nor is such an analysis the purpose of this paper. A project of this nature would certainly require an analysis of access to adequate healthcare, the affordability of tertiary education and housing research alongside the income studies. Nevertheless, the range of studies so far, and analysis from abroad (Castles 1996, Esping-Andersen 1997), point to significant equality losses in New Zealand over the period of the reforms.

It should be noted, however, that the drop in the unemployment rate in 1993 could be expected to reduce some of the inequalities, although the rate is now climbing again. The NZPMP data for this period will be forthcoming later this year. The focus group sampling has already highlighted the impacts of the housing boom in Auckland during 1995 and 1996 (Waldegrave et al. 1996), which increased the rents for cheap family housing by \$100 per week ahead of Wellington, the next most expensive city. As incomes have not risen for low-income households to match the rent hike, the housing impacts will increase inequality over this period. The overall effect on equality measures of these two differing influences will be very interesting.

THE NEW SOCIAL POLICY DEVELOPMENTS

New Zealand is now in the quite unique situation of having a reformed economy that is consistently producing fiscal surpluses. Naturally, the pressure is on from all parts of the political spectrum of the electorate to act in accordance with their particular views. These perspectives can, again for the purposes of this paper, be divided into the neo-liberal approach and the social democratic approach. The former is calling for more of the same to ensure the economy will not falter (their view), despite some early signs that it is doing so. The latter is calling for the equality deficits to be addressed, while at the same time preserving the economic and efficiency gains. There are, of course, a range of

perspectives on these themes and differing views altogether. Nevertheless, these two approaches constitute the essence of the debate.

The Government has chosen to respond in the second half of its term (1998) with a second round of tax cuts, an increase in expenditure in health and education and a reduction in the cost of welfare benefits (Peters 1998). The tax and benefit cuts continue the neo-liberal route, and the expenditure on health and education could be categorised as a more social-democratic type of response. One can only *presume*, because the specifics of the expenditure have not been clarified. Certainly, the recent decision to fully subsidise all medical consultations for children aged five years and under is an equality-enhancing one.

The Government has clearly indicated it will "reduce its welfare benefit costs" by "reviewing the relative levels of different benefits", "tightening eligibility rules and administration" and "enhancing targeting of social assistance to those most in need" (Peters 1998:13). This implies a levelling down of benefit levels, and stricter qualifying criteria to reduce numbers. The goal of reducing benefit costs appears under the heading of Fiscal Savings in the Budget Policy Statement, which logically implies it will contribute to projected fiscal surpluses, and thus help pay for the tax cuts and the increased spending in health and education. On this basis, it could be argued that a fiscally unequalising measure is being employed to create tax cuts, which will primarily benefit wealthier people (Dalziel 1996, see below), and increase spending in other social policy areas.

In February 1998, the Government released a discussion document entitled "Towards a Code of Social and Family Responsibility". It also announced a planned programme, entitled From Welfare to Work, for beneficiaries who are considered to be ready for work (Peters 1997). The discussion document on the Code, which was intended for all New Zealand households, included a number of questions that relate to the responsibilities of beneficiaries. It specifically asked whether they should be expected to meet certain responsibilities as a condition of their receiving their benefit, like ensuring their children attend school, attending training courses, etc. The Welfare to Work scheme will require beneficiaries who are deemed work ready, to attend training or undertake community work. Where they are subject to a work test, the threat of payment or part-payment withdrawal will apply. Despite official protestations to the contrary, it is difficult to conceive of these programmes as being non-punitive to affected beneficiaries.

EQUALITY, EFFICIENCY AND EMPLOYMENT

The continuous neo-liberal direction of social policy in New Zealand bears some reflection. There may have been an argument to compromise some elements of equality to increase efficiency and employment in the economy during a period of economic crisis and readjustment. To continue to jettison equality once the economy has strengthened, however, suggests that policy makers have little interest in balancing the three E's, and

are simply committed to the more constrained neo-liberal goals of efficiency and a 6% unemployment rate.

This raises the critical social and economic policy issue for OECD countries, that of balancing "sustainability and security in social policy" (Scherer 1997). If a country simply pursues economic efficiency at the cost of equality, it defeats the economic purpose, i.e. to provide a substantial quality of life for all its citizens. Inequality multiplies and the country will turn in on itself. Likewise, if a country pursues equality at the cost of economic efficiency, it will simply bankrupt itself and eventually increase the inequalities.

The Secretary General for OECD recently stated the following at an OECD Conference on Equity and Efficiency in Social Policy:

The message we would like to promote from the OECD is that bringing public-sector deficits and debt under control through fiscal consolidation is not an alternative to policies to promote social protection and social well-being: on the contrary, it is a necessary condition for maintaining such policies in future years.

At the same time, if OECD societies are to retain the capacity to maintain social cohesion in the future, they must review priorities and ways in which social programmes are implemented. It is essential for the cohesion of our societies to maintain a sound basis for social protection, but this has to be made more sustainable, both in terms of public finances and, in some countries, in terms of public opinion. (Johnston 1997:10)

These sentiments raise serious questions concerning the direction of social and economic policy in New Zealand. The brunt of the 1991 social policy reforms were carried, in large part, by those on the lowest incomes, as noted above. This is the same group that experienced the highest rates of unemployment. In other words, the insecurities created by the restructuring were primarily absorbed by the poorest households. Both their social protection systems and their labour market participation were significantly reduced.

However, when New Zealand began to ease out of her economic woes and there were fiscal surpluses to be shared, the tax-reduction mechanisms primarily benefited those on higher incomes. A study carried out in the Economics Department at Lincoln University found that only 7% of the benefits of the tax cut programme (two stages, 1996 and 1998) will be received by those in the lowest 20% of household incomes. Sixty per cent of the benefits will go the richest 40% of New Zealand households, and only 38% will be received by the low and middle-income groups (the lowest 60% of households) (Dalziel 1996). This can only accelerate inequality.

Whereas the argument in 1991 centred around New Zealand's economic crisis and the need to reduce government expenditure, the argument in 1996 centred around the economic success and rewards for everyone's hard work. On both occasions, the households on lower incomes were losers, in the sense that they were pushed into a less equal relationship with other income groups. The fundamental insecurities and losses many of them experienced in employment and social protection during the period of crisis, have not really been addressed. Unemployment rates have gone down, but labour

market flexibility has brought new difficulties to this group. The social protection schemes have remained largely untouched from 1991, while housing costs, in particular, have escalated.

The OECD's call to "promote sustainable social protection and social well-being" as a fundamental policy goal for all its member countries, is not particularly apparent in this policy response. Furthermore, the emphases on "welfare dependency", a Code of Responsibility and the Welfare to Work programme all help create a picture, however unintentionally, of inadequate problem people who require direction. The pressure on low-income households in New Zealand is very great. We must ask if this is necessary, and whether or not the situation could be managed differently. For example, if exactly the same amount of money spent in the tax cuts had been distributed primarily to the lower and middle-income groups, rather than the top 40%, would this not have better met the OECD policy management goal of equity and efficiency?

EQUALITY AND THE LABOUR MARKET

There is no doubt that the three E's are elusive during these years of lower growth rates and the increasing competitiveness of international markets. Every OECD country is struggling within the constraints of their economic capacity and their philosophical commitment to equity. Furthermore, the relationship between poverty, social security and employment is complex (Atkinson 1998). New Zealand adapted its economy to the new international environment rather more swiftly than did most other countries, however. It is now in a unique position to address the income and employment issues in an equitable and sustainable manner, if it so chooses.

At the heart of the problem is the vexed issue of employment security. It is not so much that there are fewer jobs, rather than the structure of employment has changed (Scherer 1997). As a result of the combined pressures of post-industrialisation, including the new technologies and the globalisation of trade and capital, the modern labour market is highly insecure for young people, low-skilled workers and those in declining industries. Likewise, changes related to family structure, such as higher divorce rates, lower fertility rates, the prevalence of single-parent families, greater female participation in the work place and a larger proportion of elderly persons, have moved society away from the single breadwinner in a nuclear family that the welfare state was designed around. Many of these demographic changes have particularly placed women and children at the risk of poverty (Esping-Andersen 1997).

The new situation requires fresh solutions and these must centrally address, among other things, the issue of employment. Employment is critical in post-industrial capitalist societies, because it is the source of independent income for the employee, and as long as a given job provides some degree of stability and sufficient earnings to enable employees to comfortably access essential resources, it lifts people out of poverty in a dignified manner. Furthermore, they become less vulnerable to changes in government policy. Employment is also a major source of taxation for governments. Without employment, people are often victims of social exclusion, and the state, rather than receiving money, has to pay it out in the form of welfare benefits. Large numbers of unemployed people, in turn, become a huge fiscal drag on the economy.

Policies emerging in New Zealand are currently addressing the problem through "workfare" programmes. As part of the Coalition Agreement, these programmes are expected to expand considerably, to embrace all people on benefits who are considered able to work. "Workfare" usually refers to people either being required to work in return for their benefit or being subject to a work-related obligation, like training in return for the benefit. This will be very difficult to achieve satisfactorily in New Zealand because, firstly, New Zealand is losing jobs faster than they are being created, and this is expected to continue (Statistics New Zealand 1997-98, BERL 1998). Secondly, public-sector job creation, as practised in New Zealand during the 1980s, proved to have very high administrative costs with little evidence that it improved participants' prospects of employment (McKenzie 1997).

The solution has to lie in the market, as it did in the 1993-95 period. Real jobs were created in the marketplace, largely because New Zealand was competitive on the international markets and thus our exports were growing. The official unemployment figures almost halved. Unfortunately, the export growth momentum did not continue, primarily because the exchange rate for the New Zealand dollar was allowed to strengthen to the extent that it lowered profits for exporters and eventually inhibited the growth momentum itself (BERL 1996). The success over that period, however, lay in a "value added" internationally competitive approach. "Value added" refers to adding technological value to our natural and modern non-natural resources and selling them competitively (Porter 1990). It also required a new understanding of professional performance by management and staff, innovative product development, market development, new abilities and skills. Practically all of the established OECD countries have been adopting variations of this strategy for decades.

New Zealand has an enormous potential to develop the nation's technological ability and add value to its products. Other nations were forced to do this decades ago. New Zealand never needed to because, up until the early 1970s, Britain bought practically all New Zealand's raw agricultural products. Although an agricultural country, New Zealand's citizens lived on an industrial income. This was quite unique. The early success of the value-added strategy in the 1990s points to a way forward. The modern marketplace requires skills, creativity and technology. It requires investment in the development of high-quality education and training for all, in a much more planned and active manner (Porter 1990, OECD 1997). There is a need for more advanced technological centres and superior arts, science and trade facilities in our tertiary institutions that will encourage both creativity and the development of current and new knowledge. People in work and anyone who becomes unemployed should be given the opportunity and resources to study and/or up-skill in relevant and marketable fields of education.

There is so much more potential for New Zealand to create "real jobs" in this manner than for most other countries because, unlike other countries, it has only begun to realise the potential it has. A recent OECD review noted, "New Zealand is still short of a level of participation in tertiary studies that would match the ambitions of a knowledge-intensive, high-skill economy" (OECD 1997). Training and upskilling must become a normal part of everyone's participation in the workforce, including those who are unemployed, if the country is to develop its competitive capacity. This would move the emphasis from controlling income support and administrating "workfare" to facilitating the growth of genuine market employment.

This is quite different from "workfare" as it has been practised in New Zealand. The focus would be on creating jobs in the economy and marketable skills for those out of work. The investment would be in preparing people realistically for the "real workplace" and upskilling the labour market for expansion, rather than creating costly processes of administration to organise people in a manner that is unlikely to lead to new jobs for most of them. It will require a resource commitment to education and training for those out of

work which is of the same standard, quality and range of choice, as for those in employment.

Social protection policies, in the current environment, have to be closely associated with labour market policies (Cass 1997). An OECD study on the effectiveness of active labour market policies, in a range of countries, found that in the majority of countries the programmes improved macro-economic performance, while at the same time meeting equity objectives. Unemployed people developed greater access to the labour market and jobs. They also acquired better job-related skills. The labour markets became more efficient with better links between job creation and the supply of qualified labour. Well resourced and high quality programmes, with careful assessments of the needs of individuals, were more effective than low-cost undifferentiated programmes (OECD 1994).

In the light of all this, the following mix of "work enabling" and "employment creating" policies are put forward to indicate the sort of design that could be expected to reduce welfare costs and facilitate economic growth, employment and independence. It is noteworthy that they do not simply focus on those who are out of work, but on the total interface of social and economic policy.

"Work enabling" policies consist of active support to help people enter the workforce. They include:

- Widespread access to the provision of high quality, multi-faceted, employment related education and training; emphases on both upskilling and employment development; and a particular stress on technological development and value-added strategies;
- Full recognition of the parenting responsibilities of many in the workforce have, by the widespread provision of high quality child care;
- Secure medium-term income support arrangements that recognise that the market favours flexibility and will encourage job-seeking risk; i.e. if insecure or short-term employment is all that is available, job seekers are not disadvantaged financially by taking up such work;
- Active "case management", with individual assessments that focus on encouraging activities that help people re-enter the workforce, instead of passive measures that focus on controlling income support; and
- Recognising and resourcing, as active and legitimate workforce participation a wide range of community work and caring for children and elderly people.

"Employment creating" policies can also be expected to facilitate entrepreneurial activity and authentic job creation in the market. They include:

- Widespread access to the provision of high quality, multi-faceted, employment-related education and training; emphases on both upskilling and employment development; a particular stress on technological development and value-added strategies;
- Value-added, high-technology strategies towards our natural and non-natural resources that reflect both innovation and high quality for domestic and export markets;
- Innovative product and market development;
- An emphasis on new abilities, understanding, skills and professional development by management and staff;
- Private sector leadership liaison that helps develop successful cluster industries in a broad range of communities;
- Strong research and development resourcing;
- Developing high quality marketplace and industry prognosis to inform future entrepreneurial development;
- Relating incentives to family life cycle and family formation, i.e. childcare and medium-term income support arrangements, such as housing for low-income workers. Current student loan burdens simply provide incentives for graduates to leave New Zealand.
- Monetary settings for the level of the dollar that favours export development.

SOCIAL PROTECTION AND SOCIAL WELL-BEING

The active mix of "work enabling" and "employment creating" policies would address the fundamental issues of genuine employment creation and benefit reduction in a non-punitive manner. Both these issues have to be resolved in post-industrial societies for adequate social protection and well-being to be sustainable. The approach does not involve direct market intervention, but rather support and facilitation of processes that would enable New Zealand's competitive market advantage and increase employment. It is a move away from passive to active labour market policies. The focus would change from controlling income support through minimal benefits and tighter targeting, to helping people re-enter the workforce. Education and training would be for developing needs in the labour market, and would take place after individual assessments, with ongoing casework. The benefits to participants would be direct.

The emphasis on high quality childcare is essential to address the changed demographic make-up of the workforce. The individual assessments and casework are particularly important to enable young people to enter and continue in the workforce. Income support arrangements that protect people fully in a modern flexible labour market, with part-time

and temporary work, are essential in order to provide incentives for people to risk taking insecure jobs as a leg into the labour market.

A policy programme like that would be unlikely to succeed as long as people continue to live in poverty. In that state, it is very difficult for children to take advantage of the educational opportunities that will enable them to become part of a skilled and internationally competitive workforce. It is unlikely to work if they go to school hungry or live in over-crowded houses, for example.

Social protection programmes should ensure that everyone is out of poverty. People need to be able to meet their basic needs and cover all their essential labour market costs like transport, clothing and childcare. There is more evidence to show that people prefer to work when work is available, that that generous social protection policies function as a disincentive to work. The very low unemployment levels in New Zealand during the 1950s and 1960s, and the low levels of unemployment over decades in European countries, where benefit and social insurance rates were much more generous, are cases in point.

It is obvious that the policy mix suggested here would not solve problems overnight. It would need to be carefully planned, properly resourced and skilfully implemented. When it begins to produce, though, it will impact on the whole economy in a positive manner because it will enhance New Zealand's total economic and social performance.

In answer to the social policy questions posed in this paper, it has been argued that equality does not need to be sacrificed in order to achieve economic and efficiency gains; that genuine market employment creation can reduce unemployment much further than the 6% unemployment threshold, and that on-going social losses eventually threaten the economy, because of the incredible neglect of skills and human potential, and the unaffordability of on-going large-scale welfare payments.

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