Beyond Social Investment
Annual Summit
8th September 2017

Social investment:
Target efficiency and incentives

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Time to learn from our history

- Economists love technocratic solutions to complex problems
- The future calls for subtle and sophisticated thinking- not robotic algorithms
First as tragedy:

The essential Rogernomics

• Replace progressive taxation with a low flat tax
• User pays social provision to make the tax rate really low
  – Roger wanted a flat 23% tax
• Compensate the poor with targeted assistance
  – This is the understated Archillies heel
Bill English

• I joined Treasury and within 18 months or so I was working on Roger Douglas’s flat tax package and had the unique opportunity at an early age to see radical ideas on tax debated, policies put together and then watch it all unravel.

• The one thing I learned from the flat tax package is that it doesn’t work
NZ income tax system:

4 statutory rates

“nobody will pay a tax rate higher than 25 per cent.”
The first terrible lie of Rogernomics

• No one will pay more than the flat rate

The truth

Low income people face the loss of all kinds of social assistance when they earn an extra dollar

Complex overlapping abatements equals high effective marginal tax rates (EMTRs).
Terrible lie 2

Welfare only for the poor is efficient

More targeting is better

Let's aim for “target efficiency”!!

The truth—very high EMTRs over long income ranges have huge economic costs
A system to provide targeted support raises the inevitable difficulty that an increase in income leads to a drop in assistance. That acts as a disincentive to extra earnings. When there are several schemes all phasing out independently such as occurs now with benefits, state house rents, childcare subsidies, tertiary allowances and Family Support, there is a risk that the effect of these different schemes will accumulate, leading to a drop in real income if earnings increase. This is a poverty trap. There has been some difficulty with such unco-ordinated schemes in the past. If there are now to be extra schemes, including assistance with possible health premiums, the problems of poverty traps could be greatly increased.
Terrible lie 3

All problems have a technocratic solution
An integrated approach

It would be difficult to institute a system that is sensitive to family needs by merely looking at each service individually. For example, the ability to pay for health care depends on what the family must pay for other social services. It is impossible to gauge the impact each service has on a family’s total circumstances without taking an integrated approach.

This section describes a new approach to determining entitlement for support. Its central feature is that it offers an integrated approach in which support for one social service is no longer worked out without reference to other services. Once that point is fully appreciated, the method involved in working it out is simply a matter of administration and detail.
The promise of technocracy

Welfare that Works 1991

- the phasing out of one form of assistance to a social service to begin only after the previous assistance has been fully phased out;

- a single phase-out (or abatement) rate to apply across all forms of assistance to social services included in the scheme; and

- a single test of means to apply for all forms of assistance.
The integrated system of targeted assistance

- All a family’s details would be on a smart card
- Adjustments in real time
- All social assistance would be aggregated and bleed out at one rate
- Diagrams would prove it could be done
The EMTR problem
Family Accounts
A Simplified Visual Representation

1. Core family social assistance entitlement assessment.
2. Card issued to core family.
3. Health event occurs. Part-charge possibly incurred.
4. Provider sends health event and entitlement information to Family Accounts.
5. Family Accounts send the core family their RHA account.
6. Schedule of amounts owing to providers sent to RHA. A core family debtor schedule is also sent (assuming credit).
7. The RHA pays providers on the basis of schedule.
8. The core family pays its RHA account (assuming credit).
9. The RHA reconciles its core family debtor schedule with payments received (assuming credit).
10. The RHA reports reconciliation exceptions back to Family Accounts (assuming credit).
Core family stable & predictable
Where did the 1991 reforms come from?

Let's get this straight, you're a 22 year old Treasury economist, and all the changes were entirely your idea...

Not entirely, Teddy here helped me a lot...
Smart card was fanciful and they could not make it work

- The smart card was to ‘overcome’ the problems of overlapping abatements
- Its abandonment undermined the whole rationale for the user pays approach
- Left with the welfare mess/overlapping income tests including the bits for students and their parents.
- **Cumulative effects** on the distribution of wealth, income and advantage.
We were left with the welfare mess

Every family experiences the noose differently

• http://thedailyblog.co.nz/2017/03/19/what-would-you-do-prime-minister-english/
No accountability for failed promise on which the whole edifice of welfare reform was built.
**Suffocating effects for working poor**

Gross income $35,000

....An extra $10,000 means

<p>| | |</p>
<table>
<thead>
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<td>Tax</td>
<td>1750</td>
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<td>wff</td>
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<td>Kiwisaver</td>
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<td><strong>total effective tax</strong></td>
<td><strong>8,390</strong></td>
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<td>disposable income</td>
<td><strong>$1,610</strong></td>
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Possible loss of childcare subsidy up to $60 a week

Payment of child support 18-30%
Target efficiency: the holy grail
The noose tightens

...people should call on the resources that are available to them before turning to the state.”
MSD ‘ in the matter of The Social Security Act 1964: against a decision by the Benefits Review Committee, Nov 2013

23 August 2017
New information sharing agreement between IRD and MSD

Annual comparison – all sanctions (flow data)

<table>
<thead>
<tr>
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<th>Jun-16 quarter</th>
<th>Jun-17 quarter</th>
<th>Annual change</th>
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<tbody>
<tr>
<td>Total number of sanctions</td>
<td>14,438</td>
<td>15,619</td>
<td>8.2 percent increase</td>
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<tr>
<td>Number of sanctions imposed on Jobseeker Support recipients</td>
<td>10,772</td>
<td>12,076</td>
<td>12.1 percent increase</td>
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<tr>
<td>Number of sanctions imposed on Sole Parent Support recipients</td>
<td>3,579</td>
<td>3,414</td>
<td>4.6 percent decrease</td>
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<td>Number of graduated sanctions</td>
<td>11,728</td>
<td>12,865</td>
<td>9.7 percent increase</td>
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<tr>
<td>Number of suspended/cancelled sanctions</td>
<td>2,710</td>
<td>2,754</td>
<td>1.6 percent increase</td>
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</table>

2018 Joyce raises the abatement rate (to 25%) and reduces the income threshold for WfF to $35,000
History repeats. Second as farce?

Integrated Data Infrastructure

- Travel and migration data
- Student loans and allowances data
- Education data
- Tax data
- Justice data
- Health and well-being data
- Families and households data
- Benefits data

Person-Centred Data
Social investment - intensifies target efficiency

Big data rhetoric
Bill English: we will find ‘those [deviant] families’ one at a time

Way forward
• Challenge for the social policy community
• Confront the ideology of tight targeting - reverse 25 years of conditioning