

Beyond Social Investment

Annual Summit

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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

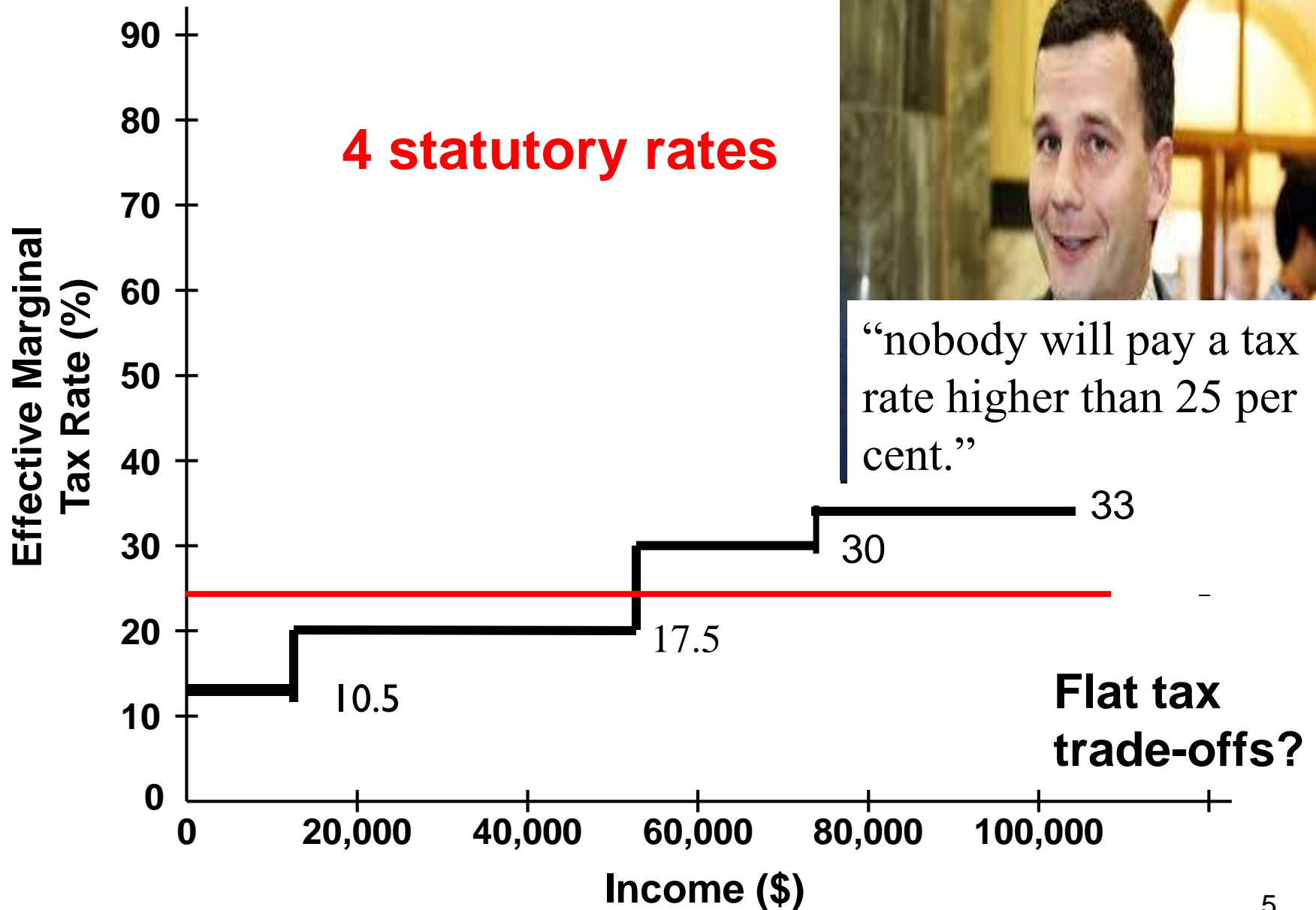
- Replace progressive taxation with a low flat tax
- User pays social provision to make the tax rate really low
 - Roger wanted a flat 23% tax
- Compensate the poor with targeted assistance
 - This is the understated Archillies heel

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:



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

Lets aim for “target efficiency”!!

The truth—very high EMTRs over long income ranges have huge economic costs

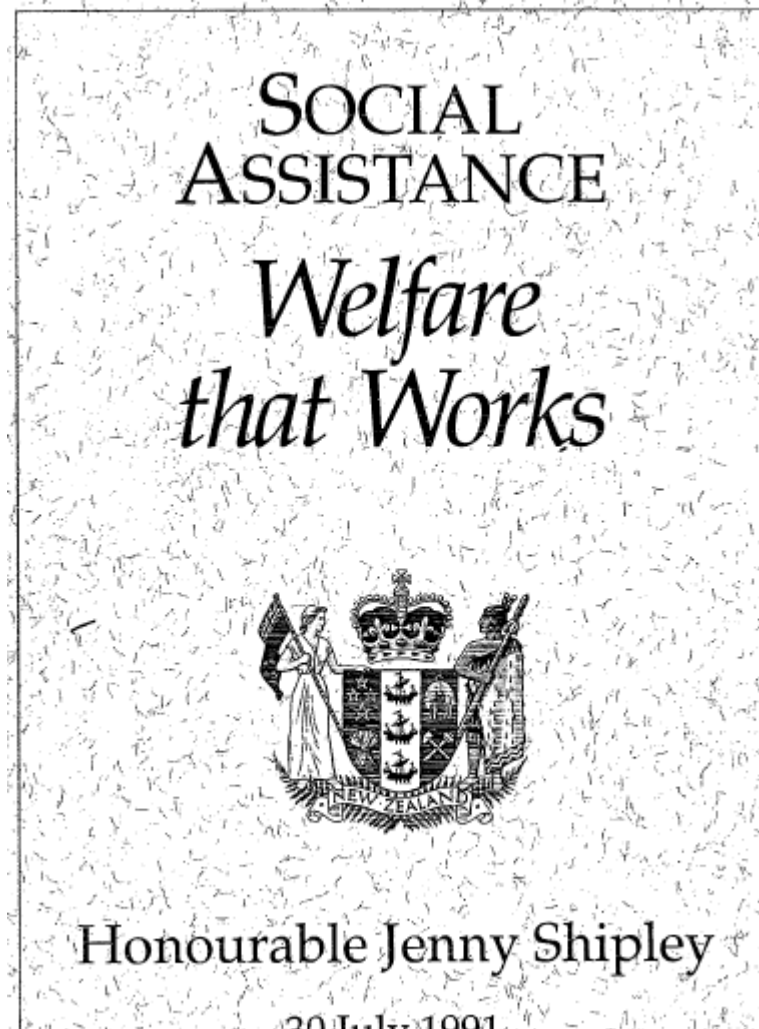


1991 Treasury warned

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



Welfare that Works 1991

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

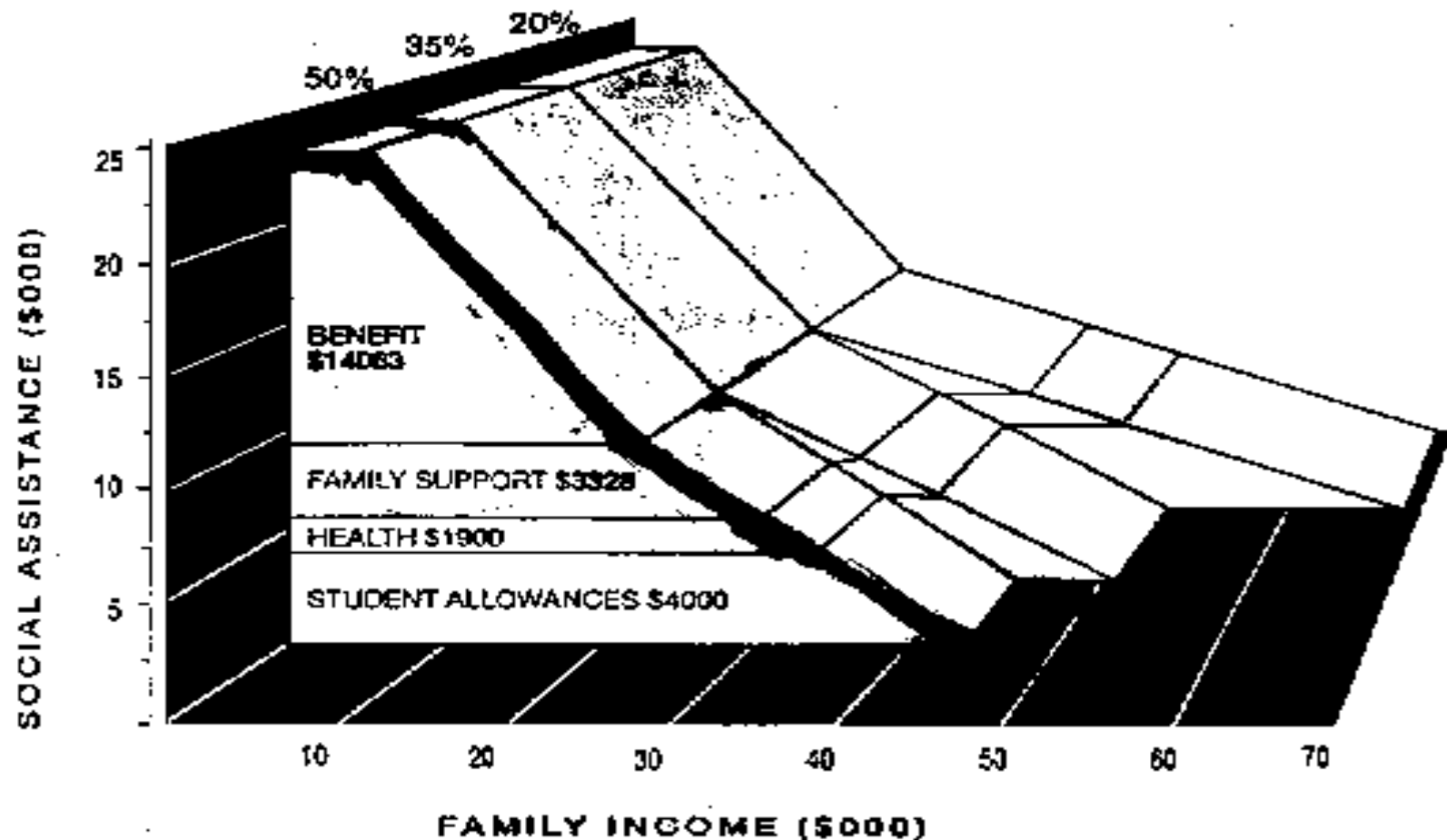
Welfare that Works 1991

- 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

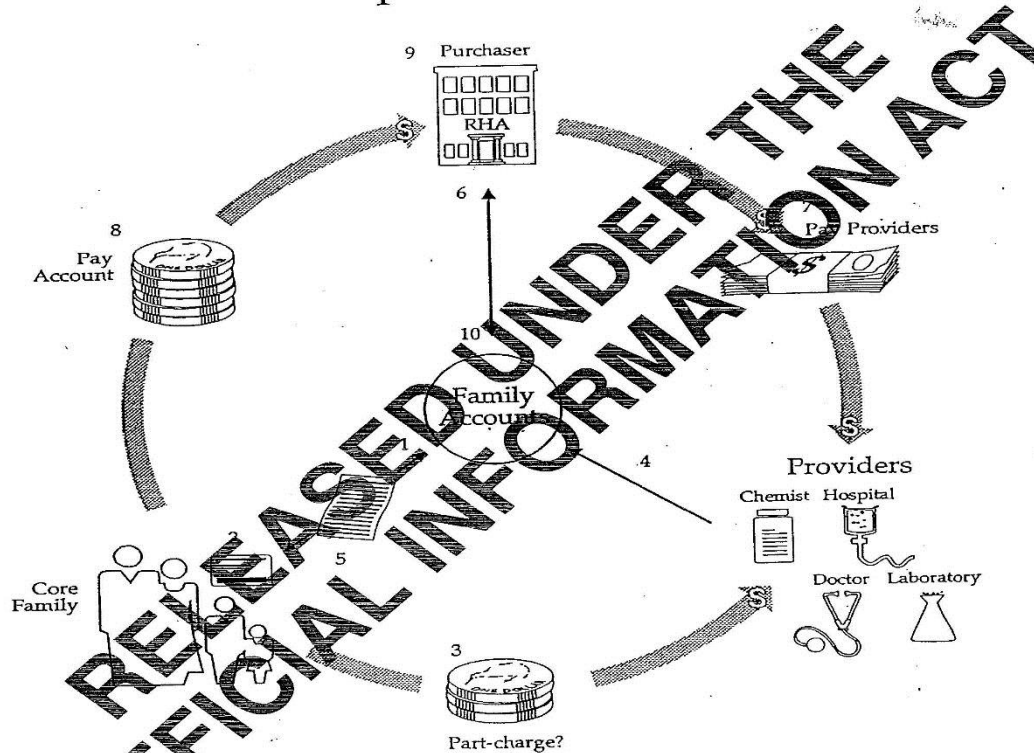
- All a family's details would be on a smart card
- Adjustments in real time
- All social assistance would be aggregated and bleed out at one rate
- Diagrams would prove it could be done

The EMTR problem



Family Accounts

A Simplified Visual Representation

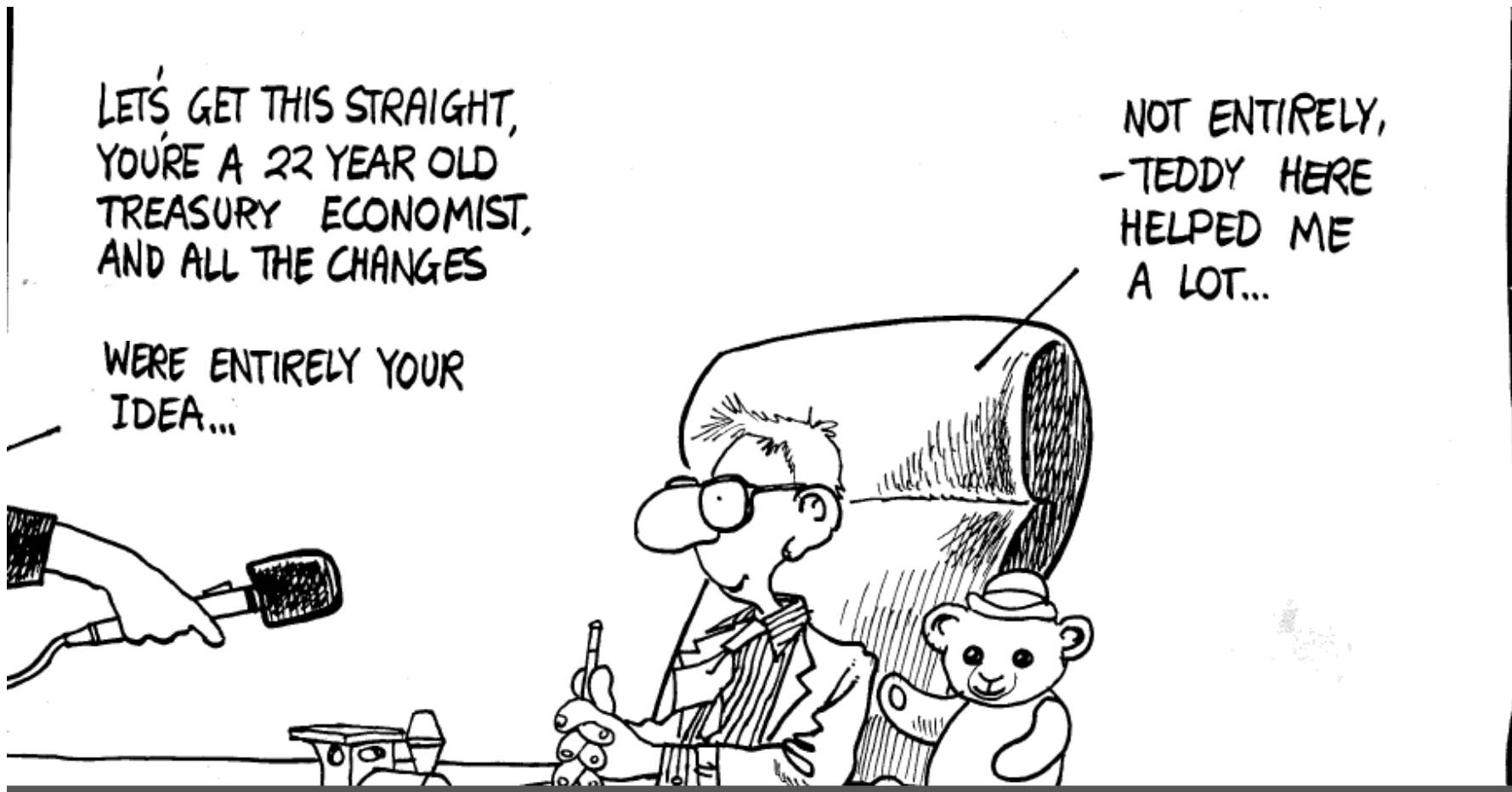


- Core family social assistance entitlement assessment.
2. Card issued to core family.
3. Health event occurs. Part-charge possibly incurred.
4. Provider sends health event and entitlement information to Family Accounts.
5. Family Accounts send the core family their RHA account.
6. Schedule of amounts 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?



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



Modelling approach

- To illustrate ...

– $Y_{AG} =$

$$(9) \quad Y_{AG} = Y_{PARENT} + Y_{CHILD} + \frac{\left(\text{Max} \left(0, BEN_{POT} - \left[IF \left(\left[IF \left(\begin{aligned} & [Y_{PARENT} + Y_{CHILD}] > BEN_{POT} \\ & [Y_{PARENT} + Y_{CHILD}] > BEN_{T10} \\ & ([Y_{PARENT} + Y_{CHILD}] - BEN_{T10}) + BEN_{BAY} \\ & ([Y_{PARENT} + Y_{CHILD}] - BEN_{BAY}) + BEN_{BL} \end{aligned} \right] \cdot 0 \right) \right] \right) \right]}{1 - T_{BAY}}$$

– $WFF =$

$$(17) \quad WFF = \left(\text{Max} \left(0, IF \left(N_F \geq \text{Max} (N_{CT}, BEN_{BAY}), Y_{AG} - NPTC_{CT}, 0 \right) \right) + \frac{0}{N_F \geq N_{CT}} \right) + \left(\text{Max} \left(\left[\text{Max} \left(0, IF \left(IF \left(\begin{aligned} & [IF (Child_N > 0, FTC_{BAY} + [FTC_{BAY} \cdot (Child_N - 1)], 0]) + \\ & Child_N \geq Child_F \\ & Child_N \geq Child_F \\ & [WTC_{CT} + (WTC_{CT} \cdot [1 + Child_N - Child_F], -WTC_{CT})] \cdot 0 \right) \right] \right) - \right] \right) \right) \cdot \frac{[CT_{AG} - FTC_{WTC_{CT}}] + FTC_{WTC_{CT}}}{[CT_{AG} - FTC_{WTC_{CT}}] + FTC_{WTC_{CT}}} \right)$$

– T_p and $ACC_p =$

$$(20) \quad T_p = \text{Max} \left(0, IF \left(\left[IF \left(\begin{aligned} & Y_{POT} < T_{T1} \\ & Y_{POT} < T_{B1} \\ & Y_{BAY} < T_{T2} \\ & (T_{T1} + T_{B1}) + ([Y_{POT} - T_{T1}] \cdot T_{B2}) \\ & Y_{POT} < T_{T1} \\ & (T_{T1} + T_{B1}) + ([Y_{T2} - T_{T1}] \cdot T_{B2}) + \\ & ([Y_{BAY} - T_{T1}] \cdot T_{B2}) \\ & (T_{T1} + T_{B1}) + ([Y_{T2} - T_{T1}] \cdot T_{B2}) + \\ & ([Y_{T2} - T_{T1}] \cdot T_{B2}) + ([Y_{BAY} - T_{T1}] \cdot T_{B2}) \end{aligned} \right] \right) \right) \right)$$

$$(21) \quad ACC = ACC_{CT} + ACC_{BAY} + ACC_{CT} + ACC_{BAY} + ACC_{CT} + ACC_{BAY}$$

Suffocating effects for working poor

Gross income \$35,000

....An extra \$10,000 means

Tax	1750
acc	140
wff	2500
stud loan	1200
Kiwisaver	300
accommodation supplement	2500
total effective tax	8,390
disposable income	\$1,610

Possible loss of
childcare subsidy
up to \$60 a week

Payment of child
support 18-30%

Target efficiency: the holy grail

The noose tightens

Latest news from Policy and Strategy, Inland Revenue, New Zealand.

23 August 2017

New information sharing agreement between IRD and MSD

...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

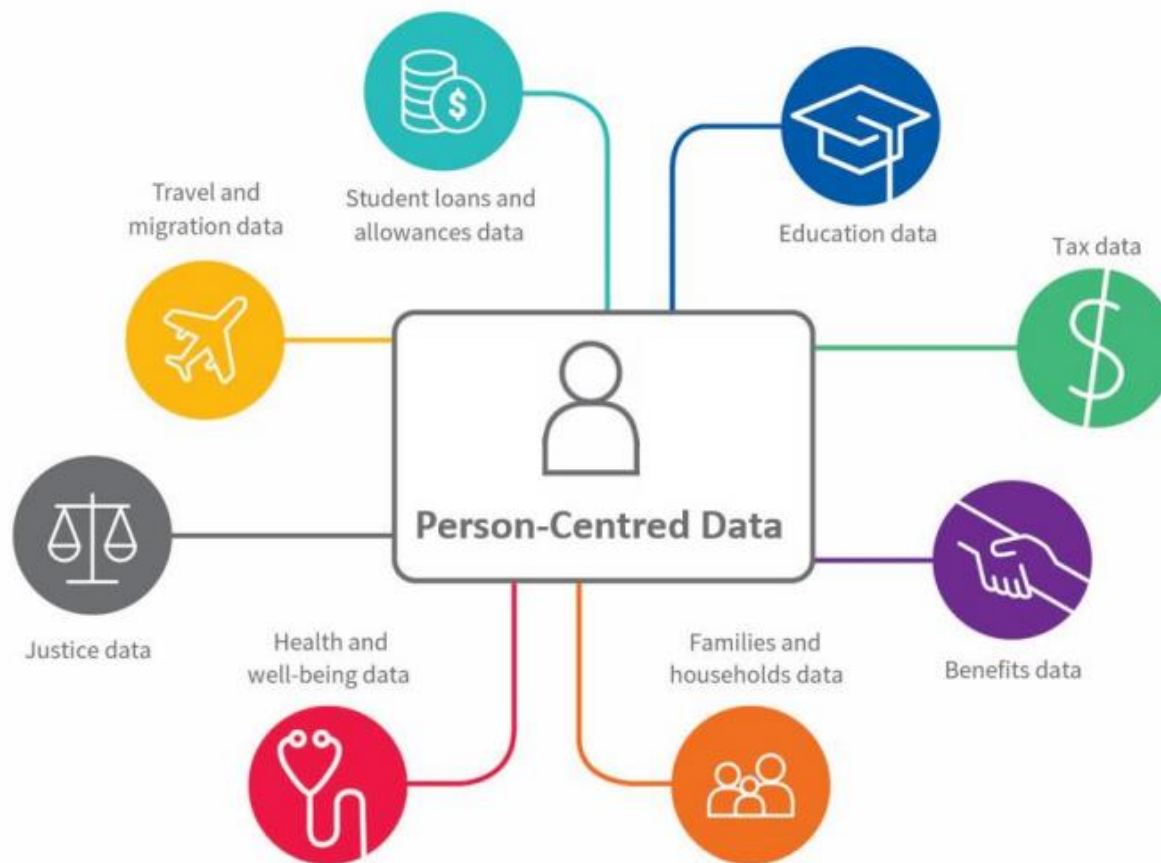
Annual comparison – all sanctions (flow data)

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

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



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