



# THE WELFARE STATE?

Social policy in the 1980's

NEW ZEALAND  
PLANNING COUNCIL  
Te Kaunihera Whakakaupapa  
mo Aotearoa

M. Han/Lynn

# THE WELFARE STATE?

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# THE WELFARE STATE?

Social Policy in the 1980s

## COVER AND ILLUSTRATIONS

The front cover is a photograph by Ans Westra. The Council is grateful to her for permission to reproduce it for this purpose.

The choice was deliberately made to reflect both the spirit of 1979 as the International Year of the Child and the Council's concern for the future welfare of New Zealanders, which is the underlying theme of this report.

The cartoons were specially commissioned for this publication. They are the work of Jock Lee to whom thanks are due for depicting aspects of the message which the Council wishes to convey.

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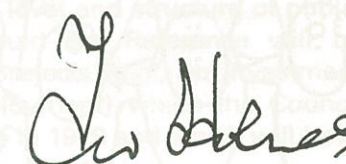
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## FOREWORD

The title of this report, *The Welfare State?* reflects the Planning Council's view that it is timely to ask searching questions about the effectiveness of the substantial and increasing expenditures which governments make on health, education, monetary benefits and other activities designed to improve our social welfare. We believe that questions also need to be asked about the directions which our social policies in New Zealand should take during the next decade. The issues are contentious, but of vital importance. We hope that our discussion will help illuminate the options, and thus assist in the search for satisfactory answers.

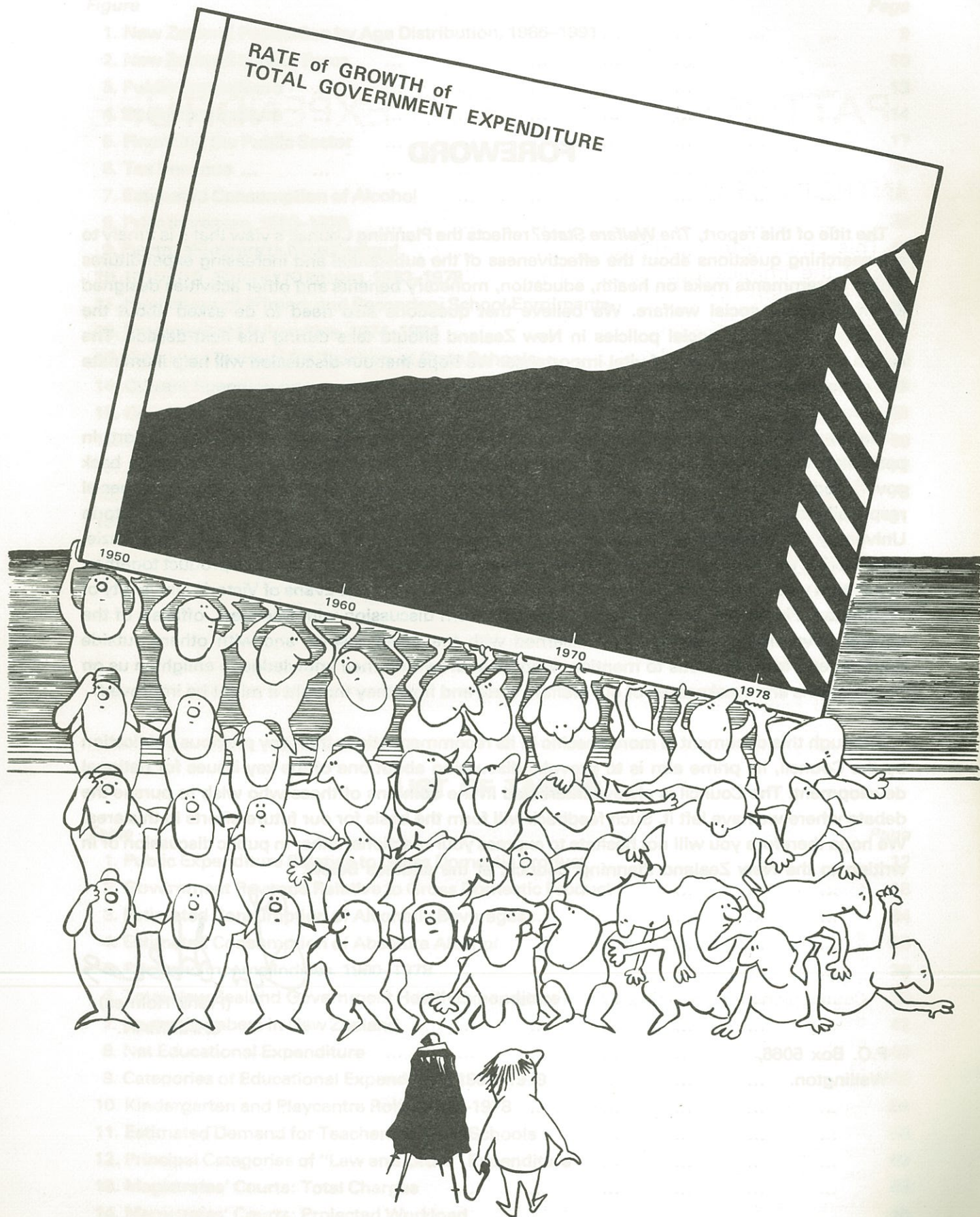
We have many people to thank for assistance rendered in the production of the report. In particular, we would mention the members of the Council's Secretariat (listed inside the back cover), together with two former members, Keith Hancox and Wije Wardana, who had special responsibilities for this project. A special debt is owed to Professor Henry Lang of Victoria University for his work as a consultant throughout the project and to Ms Julie MacKenzie, seconded to us from the Ministry of Foreign Affairs to help in bringing the final product together. In addition valuable contributions came from Avery Jack and Lewis Evans of Victoria University of Wellington. Finally we have gained a great deal from discussion with Ministers, officials of the several government departments concerned with the policy issues, and with others outside government, too numerous to mention, who have drawn on their knowledge to enlighten us on the strengths and weaknesses of our welfare state and how they thought it might be improved.

Although this document is more specific in its recommendations than any previous publication by the Council, its prime aim is to provoke discussion about one of the key issues for national development. The Council is always interested in the opinions of those who wish to pursue the debate where we have left it. Such feedback will form the basis for our future efforts in this area. We hope therefore you will not hesitate to express your reactions, either in public discussion or in writing to the New Zealand Planning Council, at the address below.

  
(Frank Holmes)  
CHAIRMAN.

P.O. Box 5066,  
Wellington.

RATE of GROWTH of  
TOTAL GOVERNMENT EXPENDITURE



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PART I

PATTERNS OF PUBLIC EXPENDITURE

INTRODUCTION

This study originated from the commentary made in *Planning Perspectives* about the implications of a period of slow economic growth for government programmes in the social area. As the work proceeded the Council became aware of several other reasons why it should attempt to lay open the issues involved in public expenditure for wider discussion. These reasons are worth stating in brief:

- There is a choice to be made about the way in which restraints on expenditure should be shared between the public and private sectors. This choice is essentially a political one, and is even more pressing on governments during a period of slow growth.
- Public expenditure is an area in which governments could work to specific planning guidelines. It is a function of the Council to suggest publicly what the guidelines might be. Moreover, by putting up firm propositions in certain key areas of public expenditure the Council would hope to ensure that the debate centres on **real questions of resource allocation and income distribution** rather than on philosophic views on global increases or decreases in the size of the public sector.
- Many commentators have seen the Council's emphasis on the role of market forces and on a move towards less government as implying a lack of concern about the important role of the state in the welfare area. **This discussion of public expenditure will make it clear that the Council continues to see a vital role for the state in attending to legitimate areas of need**, whether in terms of services such as health and education, or in terms of New Zealand's long-standing commitment to those members of the community who for reasons beyond their control are unable to support themselves, such as the unemployed and elderly.
- There have been some significant changes in the composition of public expenditure in recent decades and further changes are likely to come about in the years ahead. Independent of any choice about a guideline for the total level of public expenditure, it is important to see these changes in context and discern whether their influence on the economy and on society as a whole has been deliberate or unintended.
- There has been increasing public concern about the level and structure of taxation and the effectiveness with which public funds are being used.

Taken together, these factors could have led the Council towards a comprehensive study which would have been time-consuming and may have had little immediate impact on the public debate. We have therefore opted for an initial report which is selective as far as areas of specific recommendation are concerned. We have concentrated on the implications of public expenditure strategy for social policy and have made some tentative judgments on what the overall level and structure of public expenditure should be. Reference will be made to other projects (e.g., on investment issues and employment) which the Council intends to pursue in 1979 and which will have a bearing on the debate.

In the course of its investigation the Council has been able to gather new material and carry out some original research which should be useful to the expert whether politician, economist, or administrator. A companion volume, *Public Expenditure and its Financing: 1950-1979*, has therefore been compiled to make this technical data available to the people most immediately concerned. This report, on the other hand, has been cast in less technical language in order to reach a wider audience. Any "expert" judgment on

the validity of our findings should therefore be based on a reading of the two volumes together.

A number of figures and graphs will be used throughout. The Council is aware of the dangers of simplification by statistics. On the other hand, it is not possible to discuss trends and options without using broad numerical guidelines. It should be stressed from the outset that when looking at the decade ahead the Council has focused its attention on the *rate of growth* of government expenditure in real terms; we believe that there are important decisions to be taken in the management of this growth. By holding it below the overall rate of growth in the economy governments would be able to arrive at a reduction in the relative size of the public sector during the 1980s. But the government will, of course, still be spending more in 1989 than it is at present.

## LOOKING AHEAD

The period covered in this report extends beyond the 5-year horizon used in *Planning Perspectives*. We have opted for a 10-year perspective because many of the recommended objectives will take time to achieve. New Zealand may fall short of the average rate of growth of 3 percent which was used in the Council's first planning document as a feasible goal over the 5 years to 1983. Nevertheless, the Council believes New Zealand can still achieve on average a 3 percent growth over the next decade (in terms of gross domestic product, or GDP) provided the appropriate policies are adopted.

It would be unwise to bank on any substantial improvement in New Zealand's terms of trade over the decade. The Council believes that we must continue to reduce our dependence on overseas borrowing from the exceptionally high levels prevailing since 1974. Our good longer-term prospects nevertheless justify a reasonable net inflow of funds, through overseas borrowing and investments, to the extent of about 2½ percent of gross national product\* on average. A

\*Gross national product is a measure of total production in the economy less that attributable to non-residents of New Zealand (mainly foreign companies), and is therefore a more appropriate yardstick than gross domestic product against which to measure the country's capacity to service additional inflows of overseas funds from borrowing and investments.

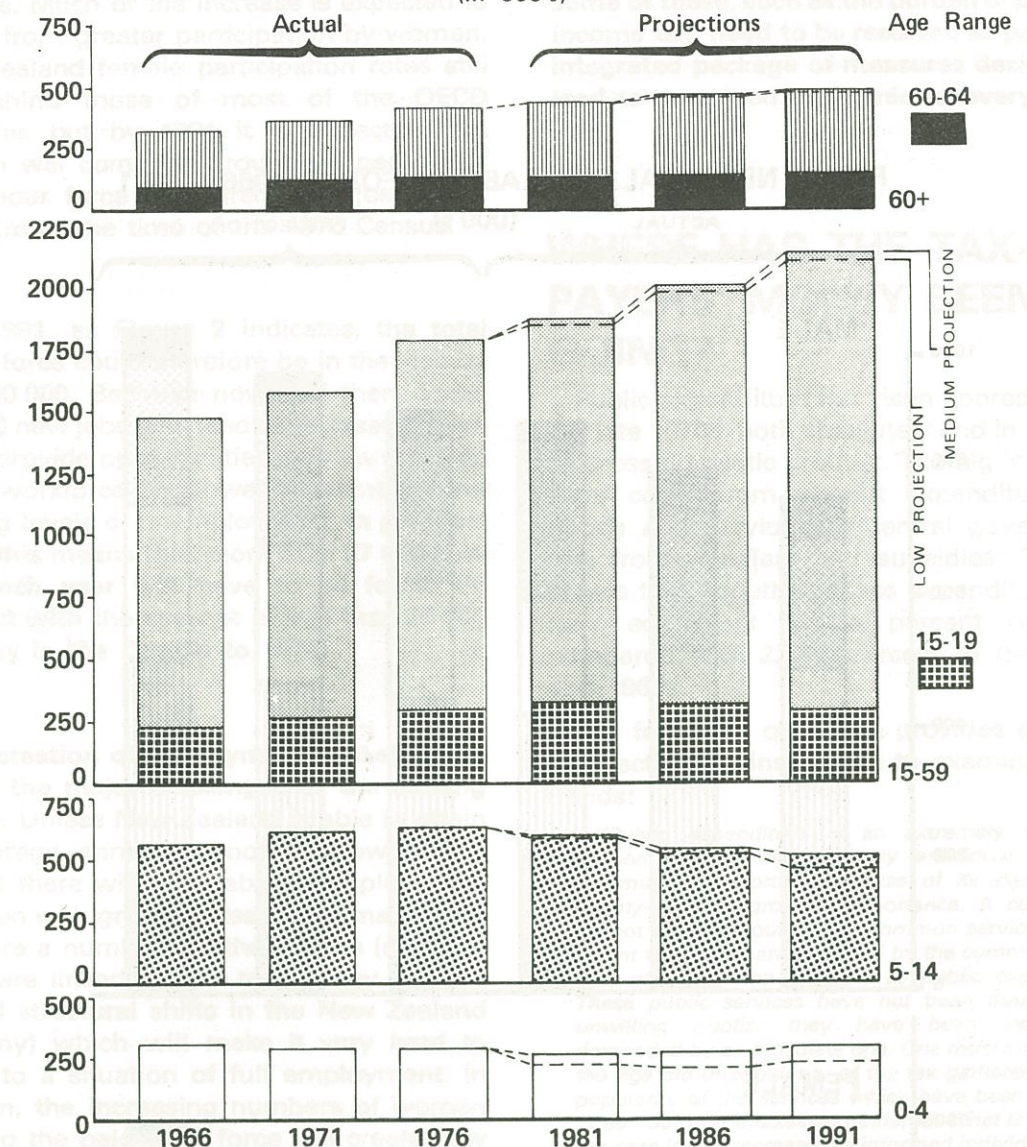
higher percentage could perhaps be supported, but only if very strong emphasis is placed on finance for productive enterprises which can be expected to earn overseas exchange or lead to efficient import substitution. The Council also believes that inflation can be brought down to levels equal to or below those of our major trading partners. In order to achieve this without adverse effects on employment the Council would hope that government, workers and employers will cooperate more actively in determining the limits within which bargaining about pay increases and other income changes should occur.

**In the shorter term a rate of 3 percent may not be attainable. If this is so, overall constraint is required. A political choice will need to be made over the way in which it is shared between the private and public sectors. It would always be possible for the latter to take up all the additional growth, but if this was to be done it would have to be financed from additional revenue, including tax on personal incomes.**

**The Council has made the judgment that it is undesirable to ask the private sector to carry the full burden of restraint.** It believes that to do so would inhibit the achievement of other goals over the next 10 years. It further believes that there is a consensus in the community (reflected in the platforms of the two main political parties) against continued growth in the relative size of the public sector. An additional point, on which there also seems to be an emerging consensus, is that there should be a reduction of government revenue relative to GDP.

Another important factor in the outlook for the next decade is population. While the pattern of recent years—a combination of a declining birth rate and high net emigration—may not necessarily continue, official projections indicate that a much slower population growth can be expected over the next decade, with the immediate prospect in the next few years of a static or declining population. **During the eighties average annual population growth could be as low as 0.4 percent (compared with the 1.6 percent a year average increase in the decade to 1976).**

FIG. 1 NZ POPULATION BY AGE DISTRIBUTION 1966-1991 (in 000's)



Source: Appendix 1

These trends can only be regarded as rough guides, with the limitations of any national aggregates. Regional variations in population movement and growth, and differences among ethnic groups can create diverse demands on public expenditure in separate parts of the country. Demographic changes cannot, moreover, be isolated from wider social changes, reflected for example in the increasing participation of women in the workforce.

Some features of our population structure are, however, already determined. We know that the age distribution will change, with the proportions in both elderly and working age groups increasing in relation to the young.

Appendix 1 analyses official population projections prepared recently by the Department of Statistics, and provides detailed material on age distribution in the future. The under-14 age groups will reduce their share of the total population from about 30 percent at the 1976 Census to between 21 and 23 percent in 1991. At the same time the over-60 group will grow from about 13 percent to between 14 and 15 percent and those in the "working" age groups (15-59) from 57 percent to about 64 percent.

**This will be reflected in an expansion of the labour force, which, though moving slowly in the early years of the decade, is expected to grow at rates of between about 1.5 percent**

FIG. 2 NEW ZEALAND LABOUR FORCE 1966 - 1991



Source: Appendix 1

and 2 percent a year on average through the eighties. Much of the increase is expected to derive from greater participation by women. New Zealand female participation rates still lag behind those of most of the OECD countries but by 1991 it is expected that women will comprise around 38 percent of the labour force compared with just under one-third at the time of the 1976 Census.

By 1991, as Figure 2 indicates, the total labour force could therefore be in the vicinity of 1 600 000. Between now and then, some 330 000 new jobs will need to be created if we are to provide opportunities for new entrants to the workforce and lower substantially the existing levels of unemployment. In practical terms this means that more than 27 000 new jobs each year will have to be found (in contrast with the average of less than 25 000 annually in the decade to 1976).

The creation of employment is likely to be one of the major challenges of the coming decade. Unless New Zealand is able to attain an average annual economic growth of 3 percent there will be sizable unemployment, and even with growth rates of this magnitude there are a number of other trends (many of which are linked to new technology and the desired structural shifts in the New Zealand economy) which will make it very hard to return to a situation of full employment. In addition, the increasing numbers of women entering the paid work force will create new requirements in areas such as child-care, vocational training, and community services. It is because the Council sees employment as one of the major issues facing New Zealand in the medium term that it has been singled out for attention in a separate project to be completed late in 1979.

Successive governments will during the decade give emphasis to a broadening of New Zealand's economic base (and much of the Council's work is intended to assist in this process). In this, as in other publications, the Council starts from the position that New Zealand is going through a transitional phase and that it will emerge with a more diversified and resilient economic structure, as well as a more confident sense of social purpose. Even if all avenues of diversification were reasonably successful, and even if performance exceeded the Council's present assumptions, most of the issues touched on in the following sections would still be issues.

Moreover, it is the Council's firm belief that some of these, such as the burden of personal income tax, need to be resolved as part of an integrated package of measures designed to lead to sustained economic recovery.

## WHERE HAS THE TAX-PAYERS' MONEY BEEN GOING?

Public expenditure has risen appreciably in the late 1970s, both absolutely and in relation to gross domestic product. The big increases have come from current expenditures on goods and services by central government and from transfers and subsidies: Table 1 shows that, together, these expenditures are now equivalent to 34 percent of GDP, compared with 22-23 percent in the 1950s and 1960s.

The following quotation provides a useful perspective against which to examine these trends:

*"Public expenditure is an extremely important element in the life of every individual within a community, important because of its size and its quality—and of growing importance. A community cannot exist without certain common services: to the extent that these are provided by the community, the cost of production features as public expenditure. These public services have not been thrust on an unwilling public: they have been increasingly demanded by an articulate one. One must not confuse the age old unpopularity of the tax gatherer with the popularity of the services which have been provided 'free' out of the taxes so gathered. What is evidently the case is that increasingly informed individuals, able to make their voices increasingly heard in an increasingly democratic system of self-government press for improvements in the public services and, as a result, for increases in public expenditure... The upward pressure goes on incessantly and the action of a government in reducing certain services always meets with criticism. For what is being withdrawn is part of the pattern of living of some group of individuals. What is happening is the lowering of their living standards."*

Lord Diamond, *Public Expenditure in Practice*.

As Table 1 shows, capital expenditures by central government have been relatively restrained and have declined in relation to GDP. Local authority expenditures (excluding those of hospital and education boards) have also declined relative to GDP in recent years.

However expenditures on social services and benefits (social security transfers) have been growing particularly rapidly, from 47 percent of total expenditures by central government in the 1950s, and 55 percent in the early 1970s, to about 59 percent in 1978-79. Expenditures on social services and benefits together are now equivalent to about

TABLE 1

**PUBLIC EXPENDITURES\* RELATIVE TO GROSS DOMESTIC PRODUCT  
(PERCENT)**

	Average 1950-59 %	Average 1960-69 %	Average 1970-74 %	Average 1975-79 %	1979 %
Central government—					
Current expenditure on goods and services ...	10.9	11.7	13.8	16.9	18.5
Capital expenditure ...	6.6	5.9	5.1	5.6	5.2
Local authority final expenditure ...	4.2	4.6	3.8	3.8	3.6
<b>Total final expenditure†</b> ...	<b>21.7</b>	<b>22.2</b>	<b>22.7</b>	<b>26.3</b>	<b>27.3</b>
Transfers and subsidies‡	10.8	10.6	10.2	13.4	15.7
<b>Total expenditure</b> ...	<b>32.5</b>	<b>32.8</b>	<b>32.9</b>	<b>39.7</b>	<b>43.0</b>
of which					
Education: current expenditure ...	2.1	2.9	4.0	4.6	4.9
capital expenditure ...	0.6	0.7	0.8	0.9	0.8
Health: current expenditure ...	2.7	3.6	4.8	5.5	5.6
capital expenditure ...	0.3	0.4	0.4	0.5	0.6
Law and order: current expenditure ...	3.2	3.8	4.3	5.4	5.8
Other Social services current expenditure ...	0.2	0.3	0.4	0.6	0.7
Total social services ...	6.3	7.8	9.7	11.9	12.7
Social security transfers ...	6.7	6.8	6.2	8.9	10.7
Total social services and social security transfers ...	13.0	14.6	15.9	20.8	23.4

Source: Companion Volume, Table 55.

\*The only part of the expenditure of government trading departments (e.g., New Zealand Railways, Post Office, and Electricity Department) that is included in this table is their capital formation. Their current expenditures are treated as operating costs and are therefore deducted from trading income. Operating losses result in a reduction in the contribution of net trading income to government revenue.

†For the periods shown in the table, total final private expenditure as a percentage of GDP was 77.9, 77.7, 76.3, 77.9, and 72.9 respectively.

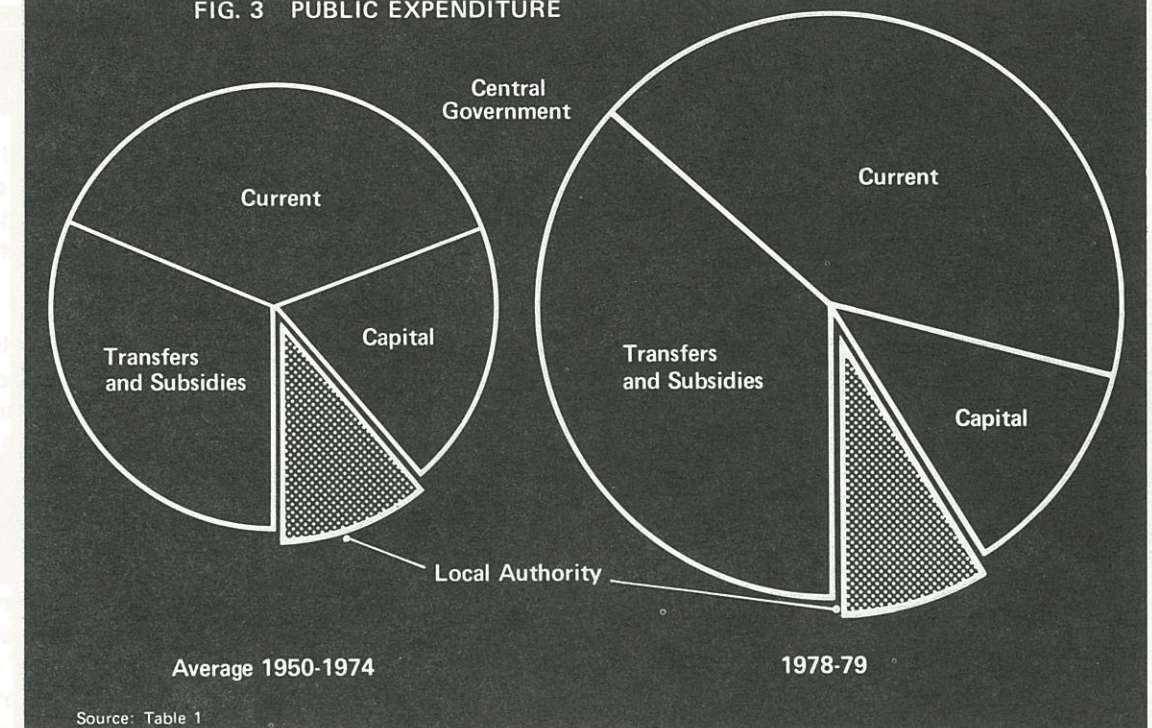
‡Transfer payments and subsidies are not part of GDP. They are most appropriately described as publicly-financed private income because they do not increase Government's use of the resources available to the community (except to the extent that resources are necessary for their administration). However, they do increase Government's revenue requirements and are therefore included as expenditure in this table.

§Figures for the period 1950-77, and some of those for 1978, have been derived from official published sources. The rest of the 1978 figures, and those for 1979, are NZIER estimates.

23 percent of GDP, compared with just over 13 percent in the 1950s and just over 16 percent in the early 1970s. Expenditures on education and later health rose particularly rapidly in the '60s and early '70s. More recently, it has been benefits which have shown the most rapid growth, with National Superannuation the major influence. Some of the limitations of these figures and the problems involved in obtaining better ones are discussed in the Companion Volume.

To the extent that public sector wage rates increase faster than wage rates in the private sector, as was the case in the early 1970s, government expenditure will tend to grow more rapidly than private expenditure. Such a trend is reinforced to the extent that the public sector is more labour-intensive than the private sector. In recent years, with rising unemployment, public sector employment has increased more rapidly than private sector employment.

FIG. 3 PUBLIC EXPENDITURE



Source: Table 1

The net effect of the above trends has been to bring about an increase in the proportion of our standard of living which is funded through public expenditure. As the quotation at the beginning of this section shows, this proportion tends to be constantly pushed up. This has been the experience of other OECD countries, although in a number of member countries public resistance has been increasing. Until recently New Zealand's public expenditure did not grow at the same rate as that of other OECD countries but some of the latest additions, especially transfers to superannuitants, have almost certainly narrowed the gap.

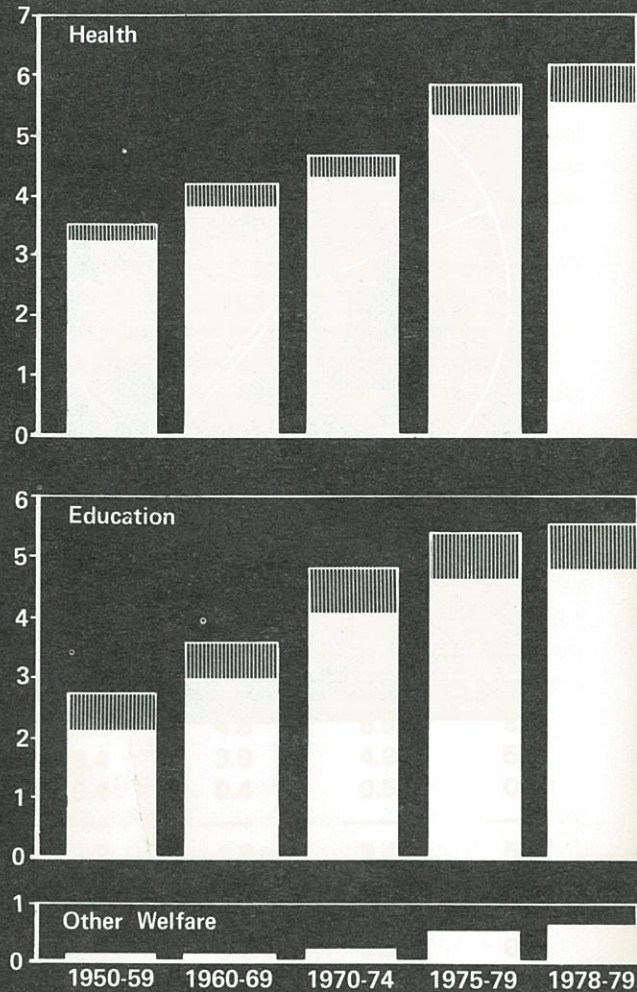
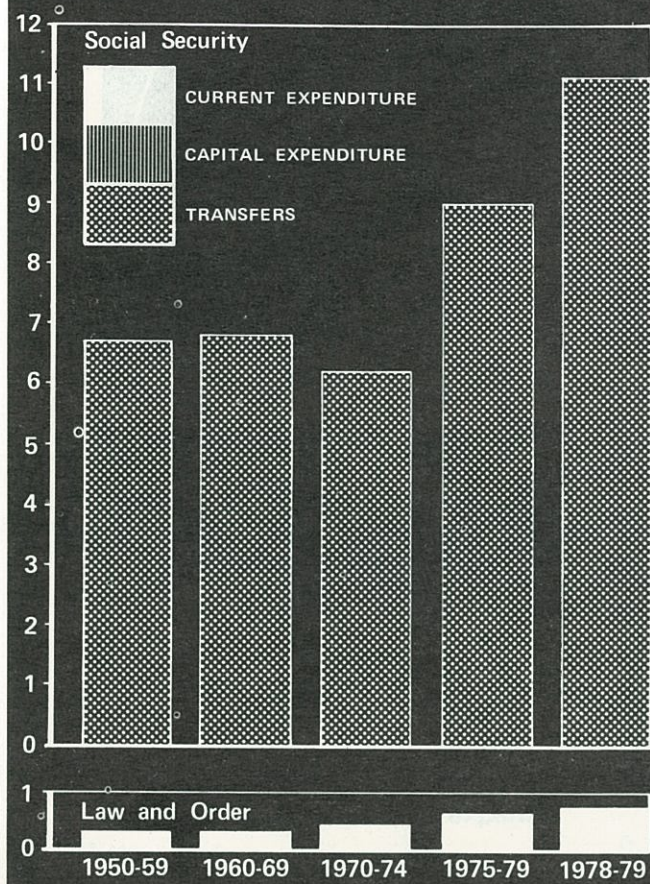
It should be noted that the most recent increases have taken place during a period when overall economic performance has been in decline. Not only was there a substantial drop in New Zealand's terms of trade in 1975, but since then GDP growth has been very low and at times negative. In 1975-76 the volume of production in the

economy grew very little, in 1976-77 it didn't grow at all, and in 1977-78 it is estimated to have decreased by about 3 percent. For 1978-79 it is estimated that GDP grew by 2 percent in real terms, but this growth was almost entirely in consumption. The fact that government revenue requirements have increased at a time when real take-home pay was falling has made New Zealanders more conscious of the cost of public policy.

For the individual, a problem arises because one cannot decide alone what part of the standard of living is to be provided by public expenditure or what size and form it will take. One can only seek to influence those decisions. Instead of deciding to pay specifically for what one wants, one simply pays a share of the public cost (as allocated by taxation), which is not usually related to the value of the benefit derived. That is the essential difference between public and private expenditure.



Fig.4 SOCIAL EXPENDITURE  
(as a percentage of GDP)



Source: Table 1

## PUBLIC SPENDING: LIMITS OF FUTURE MANOEUVRE

It is important to note that, even if there is no change in policy, different components of public expenditure tend to grow at different rates. The different rates are also influenced to a varying extent by such factors as changes in the population structure. The fact that school rolls are falling should reduce education spending. On the other hand many of the changes facing New Zealand will tend to make spending on education increase rather than decrease. For example, the rate of technological change, the need to move into new areas of production, and the desire of women to be in the labour force all suggest greater emphasis on technical training (as well as "retraining") and this will cost more. In the health field there will be strong pressure for the rapid expansion of the past 5 or 6 years to continue to enable us to take advantage of new technology and to overcome deficiencies in the present system. The cost of transfer payments will rise as the number of old people increases and the use of the domestic purposes benefit is expanded.

Having said this it is not realistic to assume no change in policy. **The country's circumstances make a reappraisal of government expenditure policies necessary. The reasons are social as well as economic. For the first time since the war, unemployment has become an important problem.** It has already been pointed out that if the recent stagnation of the economy continues, this issue will become even more serious. Continued stagnation would have other repercussions. For example, emigration could remain an attractive option for too many young New Zealanders. Since the net loss of people tends to have a major impact on the availability of skills for national development, there can be no doubt that New Zealand will suffer if this trend continues. Moreover, because the skills of those who are leaving are a pre-requisite for the expansion of the economy (and thus of total job opportunities), we run the risk of being caught in a vicious circle.

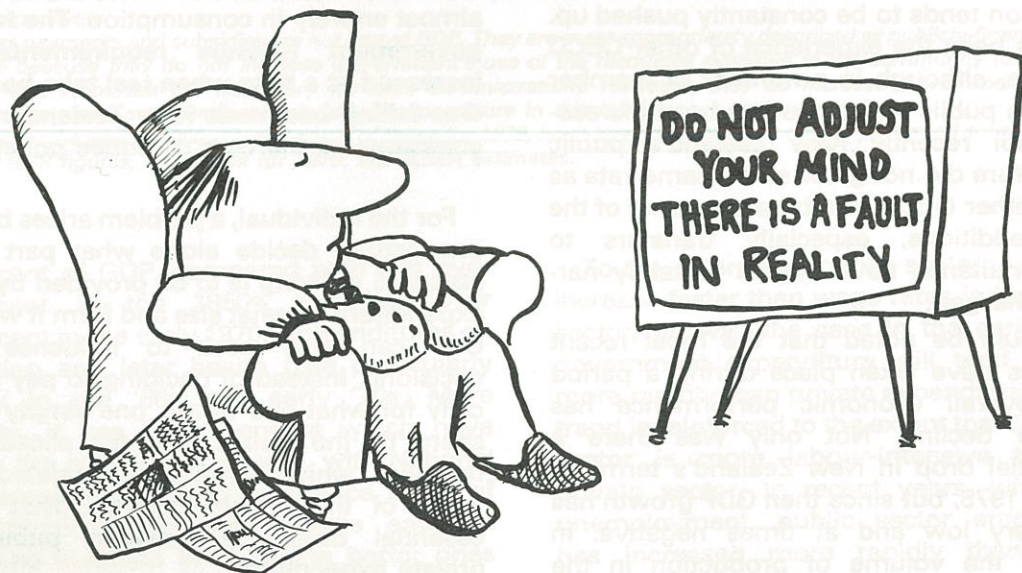
We have already mentioned that the share of restraint to be taken by private and public expenditures is largely a political question. Governments have several options—all of which involve the disappointment of some people's expectations. The Prime Minister recently asserted that it remains the present Government's intention to reduce the public sector's relative share of national product and this attitude also is implicit in statements by Opposition spokesmen. **As stated earlier, the Council considers it reasonable to assume a rate of economic growth of 3 percent a year over the decade as a whole. If the share of public spending is to be reduced, we recommend that this be done by limiting the increase in public spending to 2 percent a year\*.**

**However, in the short term, the sustainable rate of economic growth will be less than 3 percent and probably no more than 2 percent. In these circumstances the increase in public spending in the short term should be below the 2 percent a year assumed for the decade.**

If this comparatively low ceiling (or any other) is to be effectively applied, it will be necessary to look at the separate components of public expenditure because some of these respond automatically to factors such as increases in population, wages, etc., whereas others can be influenced (within limits) by shifts in policy. Indeed, the attainment of a target which is below the expected rate of growth in the economy is a very difficult task. Because of the high proportion of fixed commitments this could lead directly to more unemployment unless governments use to the maximum the degree of discretion which they enjoy in the policy area.

\*1We are assuming that policy will be directed to ensuring that the average level of pay in the public service grows approximately in line with that in the private sector. This is a major factor influencing the success of any policy of containment since the wage bill accounts for more than a third of gross government spending other than transfers administered by the Department of Social Welfare.

<sup>2</sup>Assuming an average real growth in GDP of 3 percent per annum and an average real growth in total public expenditure of 2 percent per annum, the ratio of total public expenditure to GDP will decline from its 1979 level of 43 percent to 39 percent in 1989.



It is possible to set aside elements such as the public debt and the costs of administration, which move broadly along a path which is predetermined by demographic and economic trends. (This is not to say that there is no room for increased efficiency in public administration, but cost savings from this source would be small in relation to total public expenditure.) We are then left with two large segments where there is a relatively large measure of discretion, viz:

- Direct and indirect assistance to productive enterprise (agriculture, forestry, industrial development, transport, and communications, etc.).
- Social services (including both delivery systems such as health and education, and benefits for old age, sickness, unemployment, etc.).

The first of these two areas is not our immediate concern in this study. The Council has tried to promote an overall strategy for economic management in the medium term which would enable governments to reduce the level of direct subsidy to New Zealand's industry and agriculture. Until such a strategy is adopted, it has to be assumed that fairly high spending will continue. In the forthcoming report on investment issues in both the private and the public sectors, the Council will however suggest that the goal of economic growth could be served by shifts in current policies on investment (at the same time reducing the level of state support to the productive sector). We do not therefore rule out the possibility of some of the constraint falling in this area. **As far as the area of social services is concerned, the Council considers there will be no leeway for spending to rise above the rate applied to public expenditure as a whole. It is recognised that the final implementation of full payments under National Superannuation will make 1979-80 a year of abnormally high increase. We have therefore used 1979-80 as the base year for our projections.**

## GUIDELINES FOR SOCIAL SPENDING

**If increases in social spending are to be limited to 2 percent per annum in the decade ahead and if the scope is even more restricted in the short term, some difficult decisions have to be made.** We have to view this prospect against the pattern over the last decade of steep increases in health, education and welfare expenditures. It is difficult to make assessments of likely expenditure increases beyond the next 2 or 3 years for health and education. The only known factor in the 10-year prospect is the cost of National Superannuation, which can be calculated (in real terms, i.e., before allowing for inflation) on the basis of the existing scheme. The Council has therefore had estimates prepared of the increases in spending on National Superannuation\* on the following assumptions:

- The number of people eligible for National Superannuation (i.e., those over 60 years of age) will increase by 1.3 percent per annum over the next 10 years. (This increase is not affected significantly by migration trends since the proportion of elderly people who migrate is not likely to change to any degree);
- National Superannuation will continue to be based on 80 percent of average ordinary-time weekly earnings;
- The labour force will increase by about 1.5 percent per annum and annual growth of the economy as a whole will be 3 percent.

On the basis of these assumptions the cost of National Superannuation will rise by 2.7 percent per annum after 1979-80. If total social spending is to be held to 2 percent per annum this means that expenditure increases on health, education and welfare policies (other than National Superannuation) would have to be restricted to 1.6 percent per annum. In the Council's view this would not represent a sensible set of planning objectives, given the role which health and education services will be called upon to play in national development.

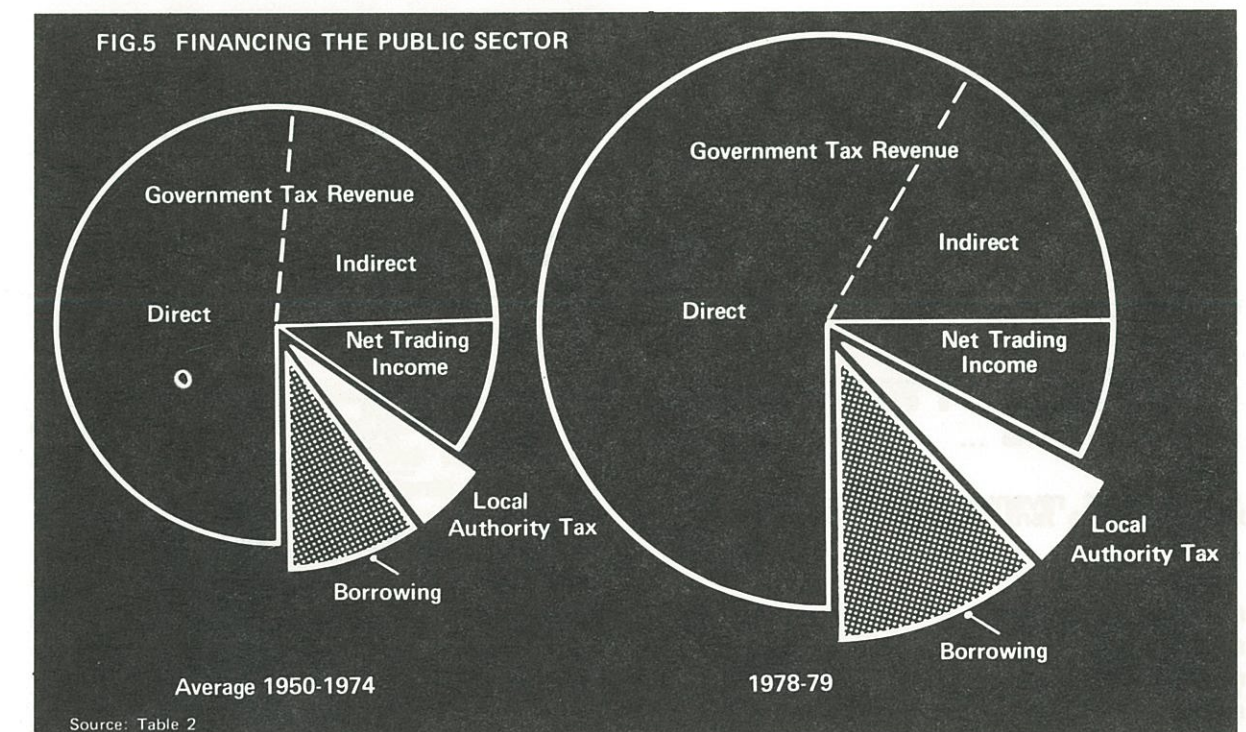
\*Details of these estimates and estimates on the basis of different growth assumptions are set out in the Companion Volume.

Given the current problems of unemployment, the Council also considers that any slowing down in health and education expenditure (which are both labour-intensive) should not be so drastic as to lead to a significant loss of jobs. Given that any changes in National Superannuation will take a little time, social spending adjustments in the very short-run should be cushioned, even to the point of allowing increases above the benchmark of 2 percent per annum. This may imply short-term measures which put the burden of reduction on other areas of government spending.

In making a value judgment about the degree of constraint on social spending the Council has drawn on the findings presented in later sections of this report, especially those

which cast doubts on the cost-effectiveness of many present forms of delivery of social services. **In the longer-term framework it is clear that techniques do exist whereby we can get better value for the dollar spent on education and health. We also need to look at policies which will reduce social tensions, thus easing the pressures on "casualty" services.**

Many of the reasons for adopting the planning framework outlined above lie outside the social policy area. They include the desirability of improving margins for skill and increasing incentives for efficient enterprises. By turning now to the revenue aspects of public expenditure we will see that they offer a separate set of reasons for applying the suggested benchmark.



## THE WEIGHT OF THE TAX BURDEN

Government revenue, after maintaining a constant ratio with gross domestic product for 20 years, has grown faster than GDP in the period since 1974.

Table 2 shows that the increase in government revenue has been obtained primarily by increased tax on personal income. The share of total tax revenue paid by the corporate sector has declined somewhat.\* The tax burden on households (in particular the salary and wage earner) has increased. There has been a decline in the disposable

\*The decrease in the proportion of government revenue coming from company tax is primarily due to three factors. First, the system of export incentives has reduced the tax paid by some companies; second, unlike personal income which is taxed progressively, company profits are taxed at a constant rate so that increased before tax profits do not result in an increase in the proportion taken in tax; third, during recent years the before tax profits of some companies have declined with the result that the tax paid by them has also declined.

income of those households which do not derive much income from transfer payments relative to those that do. Moreover these changes have been taking place rapidly in a period of very low economic growth. This explains in part the marked increase in public resistance to high taxes.

Apart from attitudes, it is clear that economic and personal decisions are also affected. **The Council considers that present rates of both marginal and average tax on personal incomes have not only increased too rapidly in a period of low growth in real personal incomes, but are also at levels that are too high.** The rapid increase in the average tax rates paid by individuals during a period in which there has been a decline in real disposable income per head may well be a factor contributing to higher wage claims, wage increases, and hence price increases. The Council believes that high tax rates are a potent factor in decisions by New Zealanders to live elsewhere.

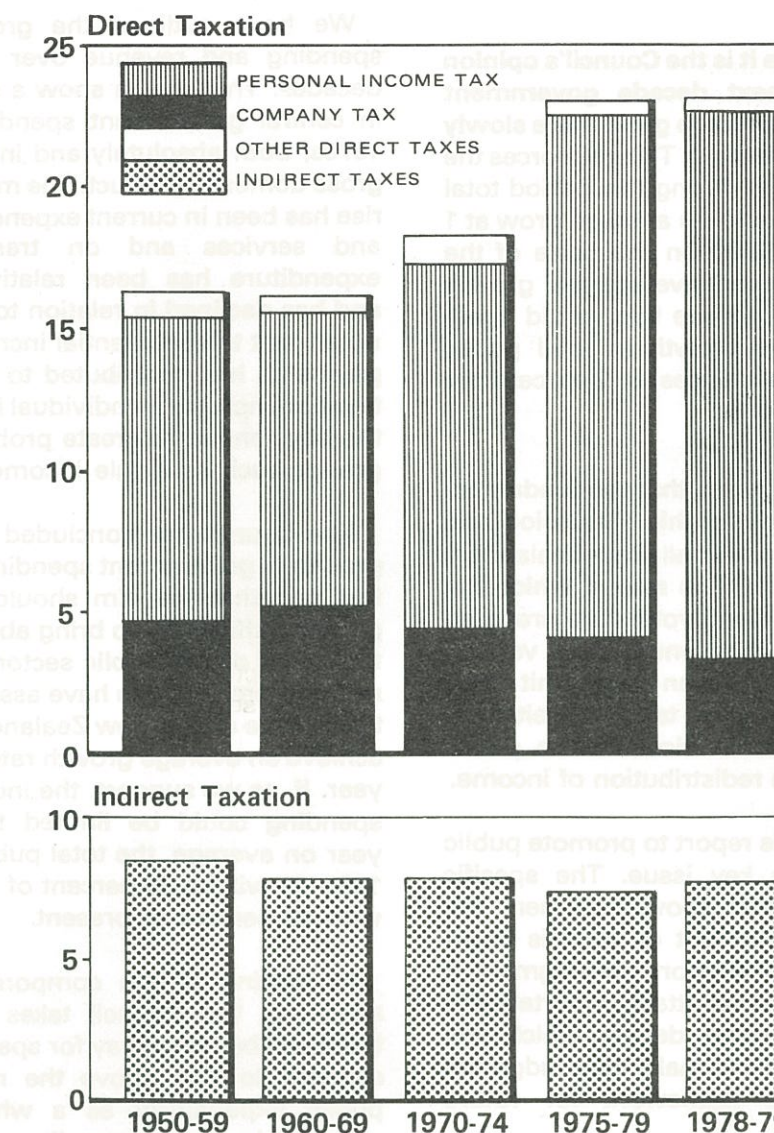
TABLE 2

### GOVERNMENT REVENUE RELATIVE TO GROSS DOMESTIC PRODUCT (PERCENT)

	Average 1950-59 %	Average 1960-69 %	Average 1970-74 %	Average 1975-79 %	1979 %
Central government—					
Direct taxes	16.3	16.2	18.1	22.7	22.7
Indirect taxes	8.4	7.7	7.7	7.5	7.8
Local authority taxes	1.9	2.0	2.0	2.2	2.4
Net trading income	2.7	3.5	2.9	2.8	3.8
Government revenue before borrowing	29.3	29.4	30.7	35.1	36.7
of which					
Personal income tax	10.3	10.3	13.2	18.4	19.6
Company tax	4.9	5.1	4.5	3.8	2.8
Government borrowing	3.3	3.5	2.3	4.6	6.3

Source: Companion Volume, Table 9.

Fig.6 TAX REVENUE (Central Government) as a percentage of GDP



Source: Table 2

A less apparent feature of high public expenditure is the effect of transfer payments and tax exemptions on the relationships between taxpayer and recipients. The growing awareness on the part of the former of the uses to which taxes are put and the stigma which is still associated with benefit payments in the minds of many members of society (including potential recipients, such as those who decline to register as unemployed) have altered social relationships in a subtle way.

## PROSPECTS FOR THE EIGHTIES

The Council considers that over the next decade:

- Both average and marginal tax rates on personal income should be reduced and a continuation of the recent rapid growth in the proportion of personal income taken by income tax should be avoided;

- Government overseas borrowing should be reduced relative to domestic production.

As a consequence it is the Council's opinion that during the next decade government revenue should on average grow more slowly than domestic production. This reinforces the earlier judgment that during this period total public spending should on average grow at 1 percent less than GDP. On the basis of the assumption of 3 percent average real growth per annum for the decade this would again suggest an average growth in total public spending (in constant prices) of 2 percent per annum for the decade.

The Council recognises that the fundamental questions underlying this discussion are, in the end, questions for all New Zealanders to decide collectively. The rate at which the majority of New Zealand voters are prepared to allow government revenue, in its various forms, to increase will set an upper limit to the rate at which spending can take place either to produce goods and services in the public sector or to finance redistribution of income.

It is the aim of this report to promote public discussion on this key issue. The specific targets recommended above represent the Council's best assessment of what is desirable. Others may not support this judgment. It is for this reason that we attach importance to an open and informed debate which will assist political parties to make their judgment about a desirable framework for future planning.

## SUMMING-UP

We have outlined the growth in public spending and revenue over the past three decades. The figures show a substantial rise in central government spending in the late 1970s, both absolutely and in relation to the gross domestic product. The major part of this rise has been in current expenditure on goods and services and on transfers. Capital expenditure has been relatively restrained and has declined in relation to GDP. We have noted that the substantial increase in transfer payments has contributed to the increase in taxation, notably in individual income tax, and thereby tended to create problems for some groups such as single income families.

The Council has concluded that the recent growth in government spending has been too fast and that the aim should be to reduce growth sufficiently to bring about a decline in the share of the public sector relative to the national product. We have assumed that over the decade ahead New Zealand will be able to achieve an average growth rate of 3 percent a year. If, as we suggest, the increase in public spending could be limited to 2 percent a year on average, the total public spending in 1988-89 will be 39 percent of GDP compared with 43 percent at present.

In looking at the components of public spending, the Council takes the view that there will be no leeway for spending on social services to rise above the rate applied to public expenditure as a whole. We have calculated that expenditure on National Superannuation after 1979-80 will increase at 2.7 percent per annum on the basis of the existing scheme. If total social spending is to be held to 2 percent per annum, this means that increases in health, education and welfare expenditures other than National Superannuation would have to be restricted to 1.6 percent per annum. In the Council's view, this would not represent a sensible set of planning objectives, given the role which health and education services will be called upon to play in national development.

Recommendations are made in Part III which should lead not only to the more effective provision of social services and the better use of the taxpayer's dollar, but also achieve a slower increase in overall public spending than has taken place in recent years. First, however, we would like to look afresh at the philosophy of public spending in this area.

## PART II NEW DIRECTIONS FOR THE WELFARE

WHY CHANGE?

When we think of 'social policy' we tend to think of those common-sense public policy which are loosely grouped under the heading of 'The Welfare State'. By New Zealand standards, this concept has been around for a long time. Politically, it has a rather special pedigree and successive generations have come to take a particular pride in what New Zealand has achieved (even though the achievement is no longer unique).

There can be no doubt that the existence of the welfare state has developed a set of expectations in our culture. These can be summarised as follows:

- The state should ensure that the needs of the elderly are met, and that they should have access to good health care and other facilities, regardless of their ability to pay.
- The state should ensure that the needs of the handicapped are met, and that they should have access to good health care and other facilities, regardless of their ability to pay.

It is not surprising, therefore, that there has been a reluctance to allow the levels of welfare state. Until very recently the assumption has been that they should stay roughly in place. The pattern has been to add, rather than adjust to meet new areas of need such as coverage for solo parents. We have seen that partly as a result of this "incremental" approach, spending on the welfare state now represents a very high proportion of total public spending.

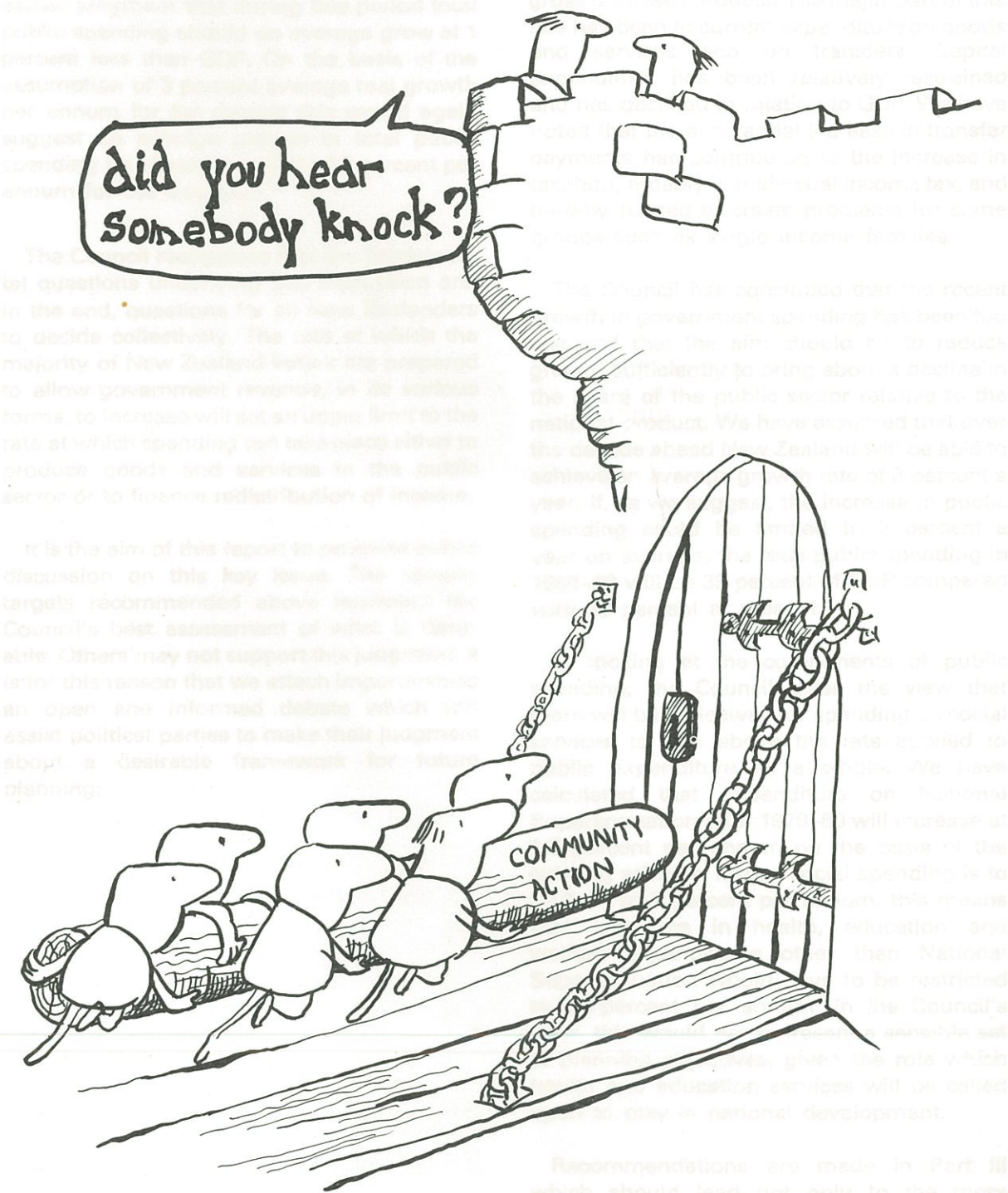
In the course of carrying out this study, the Council identified three recurrent themes common to most areas of welfare state activity:

1. Increased spending by the state does not necessarily produce proportionately better results or meet people's expectations. In the field of health, for example, the mortality rates for certain age groups have actually increased during a period of expensive advances in medical care.
2. There are both rigidities and anomalies in the system as it has developed (e.g. people incapacitated by sickness receive less generous benefits than those similarly affected by an accident; married women receive less generous benefits than single women; the state provides more generous benefits for the unemployed than for the unemployed who are scattered throughout the country, women's refuge and health centres, alternative schools).

All in all, it could be argued that there is no direct relationship between the amount of state spending and the activities of public institutions on the one hand, and the real welfare of people on the other. Money in itself does not equate with welfare. The Council

Government... should... product...

### SWAMPING-UP



## PART II

# NEW DIRECTIONS FOR THE WELFARE STATE

### WHY CHANGE?

When we think of "social policy" we tend to think of those components of public policy which are loosely grouped under the heading of "The Welfare State". By New Zealand standards, this concept has been around for a long time. Politically, it has a rather special pedigree and successive generations have come to take a particular pride in what New Zealand has achieved (even though the achievement is no longer unique).

There can be little question that the existence of the welfare state has developed a set of expectations in our culture. These can be summed up in two widely-held propositions:

- The state, by providing services which are heavily subsidised or free of charge, should ensure that all citizens have access to good educational and health facilities, regardless of their capacity to pay;
- The state should assist those in need and provide individuals with security against hardship arising from sickness, old age, death of the breadwinner and other hazards of life.

It is not surprising, therefore, that there has been a reluctance to review the tenets of the welfare state. Until very recently the assumption has been that they should stay broadly in place. The pattern has been to add, refine and adjust to meet new areas of need (such as coverage for solo parents). We have seen that partly as a result of this "incremental" approach, spending on the welfare state now represents a very high proportion of total public spending.

In the course of carrying out this study, the Council identified three recurrent themes common to most areas of welfare state activity:

1. Increased spending by the state does not necessarily produce proportionately better results or meet people's expectations. In the field of health, for example, the mortality rates for certain age groups have actually increased during a period of expensive advances in medical care.
2. There are both rigidities and anomalies in the system as it has developed (e.g., people incapacitated by sickness receive less generous benefits than those similarly affected by an accident; married women have to meet more stringent requirements than married men to qualify for the unemployment or sickness benefit).
3. A great many individuals see the need for alternative or additional forms of delivery of social services. Groups of citizens often come together to establish "home grown" services or alternatives to those that already exist, e.g., unemployment committees scattered throughout the country, women's refuge and health centres, alternative schools.

All in all, it could be argued that there is no direct relationship between the amount of state spending and the activities of public institutions on the one hand, and the real welfare of people on the other. Money in itself does not equate with welfare. The Council

believes that the taxpayer is not, at present, getting good value for his dollar. The reasons for this are very complex and in this study the aim is simply to highlight some of the key issues for debate.

We have identified three main areas on which public discussion might focus:

#### A. Assumptions on which the welfare state was based

- The government should act as our collective conscience towards those in need, and use our taxes for this purpose;
- Public institutions will provide the most effective vehicle for the delivery of "free" social services;
- The state may be impersonal, but it can at least ensure equality of treatment to all citizens.

#### B. The escalation of demands on the welfare state

- There has been an illusion that by making welfare and other services available on an equal footing to all citizens, governments have done enough to cover the needs of each different group in society;
- Social policy tends to be dealt with in compartments, e.g., accident compensation, domestic purposes benefit, continuing education, so that government activity has focused on the separate components rather than the broad picture of social development in New Zealand;
- The role of the most expensive services—health, education and welfare—tends to dominate. This is compounded by the fact that complaints from within the community focus on these areas (and also on law and order).

#### C. Factors which have changed the context of social policies

- Deep-seated social changes, e.g., in the family structure, in attitudes towards having children and towards work, in the effects of urbanisation and in the state of race relations;
- Recent policy decisions, such as the introduction of equal pay, domestic purposes benefit and National Superannuation.

Whatever conclusions emerge from the debate on these and other issues, it is clear that changed circumstances in New Zealand (as elsewhere) will require new policies in the social area. Governments will be dealing with a set of problems to which the solutions are by and large unfamiliar. In some areas, the experience of other western countries will not be entirely relevant and we will need to learn from the traditions and value systems which come to us from Polynesia and Asia.

### COSTS AND BENEFITS

The Council would like to stress that there is a basic choice to be made between

- Relating new policies to a coherent view about future directions for the welfare state; or
- Simply adding piecemeal to the existing system as new areas of need become politically apparent.

The Council's own conviction, based on the analysis in Part I above, is that every component in the existing system should be open to scrutiny. It is also aware of the difficulties in adopting benefit systems which are based on universal eligibility (with no means test). If such benefits are set at a high enough level to meet most categories of need they will be expensive for the taxpayer. When the country's resources are under pressure this drain on tax revenue will limit what is available, e.g., for increases in take-home pay. This will mean other areas of need will be created. Alternatively we will find that there is still a "really needy" category for which a supplementary or emergency benefit structure (with all the administrative difficulties that this entails) will be required. The real anomaly arises when people who are themselves needy are called upon as taxpayers to subsidise those who are less needy.

It is always possible to decide that as a community we wish to settle for a certain level of support towards various groups in society and for an even distribution throughout the country of expensive health and education facilities. If we do this, we shall need to make sacrifices in other aspects of our "standard of living". In particular we must accept the high tax burden which would flow from such a decision.

The choice stated above is also relevant to the longer-term view which the Council has taken in this report. It is a feature of practically all areas of spending on social policies that investment in longer-term "preventive" work tends to give way to the more urgent pressures of short-term "casualty" work. This issue was fully discussed in the report of the Task Force on Economic and Social Planning and in a number of other documents which have been prepared here and overseas. By definition, the incremental approach to the welfare state will tend to emphasise the short-term aspects and budget constraints will force postponement of the longer-term planning which is essential if we are to reflect concern for future generations.

### THE PROCESS OF SOCIAL CHANGE

In Part III of this study the Council will look at choices in some of the main areas of social spending. The process of social change affects each area in a different way. In some cases the Council has been unable to see how the system, as it has developed, has been related to particular objectives. It is, however, a first principle of planning that such objectives should be enunciated and that there should be measurable criteria by which to evaluate subsequent performance. This applies to social planning as much as to economic planning. It is a serious matter that in areas such as law and order, health and education, the things that are measured do not tell us much about the *cost-effectiveness* of the service which the taxpayer is providing. Often the statistics are more notable for what they omit to say, e.g., the number of doctors per head does not tell us about the quality of health care; statistics on crime do not tell us much about the social contexts in which the offences occur; examination passes do not tell us what happens to those who fail. In this respect the development of social indicators which measure social well-being is an important element in the design of social policies. It is also essential to know more than we do at present about major trends in New Zealand society.

The Council has therefore asked itself whether the present stock of knowledge about society allows us to draw at least a thumbnail sketch of the most significant changes which are affecting New Zealand. It endorses the view of the Task Force that the most

important movements are towards greater *diversity*—New Zealanders are increasingly aware that they do not have as much in common with some of their fellow citizens as they expect. With this diversity, New Zealand has seen a change in attitudes towards old traditions and beliefs and towards previously accepted lifestyles and roles. While the pressures to conform are still strong, there is rather more acceptance today of the fact that individuals have different values and have the right to choose the way of life which suits them. As yet, however, there have been only a few who have attempted to achieve real understanding or appreciation of the alternative philosophies about the development of society which some New Zealanders are now pursuing.

Similarly the attitudes of individuals, of groups, of communities, and of institutions towards the changing features of society are little understood. There is perhaps more questioning of the relative roles of individuals, the state, and the community. In New Zealand the belief in the welfare state has led to social problems such as poverty, unemployment, and ill-health being seen largely as the responsibility of the state (which in essence means the taxpayer). In recent times, however, there has been increasing concern with the responsibility of the individual in the community. Public participation in decision-making and the devolution of some responsibility to the regional level are seen by many as essential techniques to bring about improved planning and delivery of services.

Another major trend has related to the changing nature and concept of the *family*. The decreasing birth rate, the smaller family size, the changing role of women, the high ex-nuptial birth-rate, the more general acceptance of solo parents and stable *de facto* relationships, and the trends amongst young people towards group living, all have been influential in changing our idea of the family. This has created difficulties for the system of benefits, for traditional social organisations, and for individuals in defining their own roles. It is however a fact that there are now increasing numbers of New Zealanders living in situations which do not fit the traditional model of the nuclear family.

A number of changes have also occurred as the *role of women* in society has altered. These have far-reaching implications, linked to some of the major social and economic concerns facing our country. Issues such as

work patterns, labour demands, employment practices, the responsibilities of caring for dependants and the provision of social services, have to be considered in terms of the changing role of women.

Having considered some of the major changes of attitude, it must be remembered that the pressures of change in society create a whole range of reactions which stem from the frustration of individuals. The level of crime (particularly violent crime), the alienation of the young and certain minorities, the rate of marriage breakdown, the personal maladjustment indicated by suburban neurosis, the abuse of alcohol and other drugs and reliance on prescription medicine, the extent of loneliness—all these must be seen as symptoms of a fundamental disarray in our society. When one seeks to put these changes into a planning framework, it quickly becomes apparent that there is uncertainty about where we are heading. The fact that we lack a sense of direction breeds resentment and creates divisions. This in itself undermines the philosophy of the welfare state.

## SOME WIDER ISSUES

Reflecting on past and present policies, the Council has concluded that the practice of our welfare state previously proceeded on a basis that there are established and undisputed norms in New Zealand society; it is assumed that once the criminal is punished, once the victim is compensated, or once modern medicine is used to treat sickness, the individual will then be able to revert to being a "normal" citizen. The imperfections and inequalities in New Zealand, as well as the disparities in values, are however becoming more apparent to contemporary commentators.

The Council believes that this adherence to a notion of normality in fact undermines the effectiveness of social policies. It is misleading to see each of us fitting into the mould of a "normal" citizen. Yet it is very difficult to cater for diversity within an administrative hierarchy or bureaucratic system. New approaches need to be developed. **In the meantime, however, the welfare state faces the built-in problem that it is almost impossible to stop doing what has been done before.** The situation can thus develop where, by continuing to address "traditional" remedies to "traditional" needs, the system concentrates

unnecessarily on some areas and fails to cater for new needs in others. When analysed these needs can be shown to be far-reaching in their implications.

One example is the two-income family. This is an emerging trend, but society has not yet moved to place both income earners in such a family on the same basis of eligibility for an unemployment benefit. Similarly, although it is not policy to discourage couples from having children, nor to discourage one of the parents from spending his or her time rearing these children, society has not yet given recognition to the fact that in more and more cases if one parent were to "work" at rearing the children, this would place the family in a position of relative poverty. There is at present an assortment of provisions for people engaged in rearing children, such as tax concessions, the family benefit and the domestic purposes benefit. There are therefore problems to be resolved both about the consistency of treatment extended through tax rebates, benefits and other measures and also about the value which society wishes to attach to the caring role. Tax changes could provide part of the answer.

However if present trends continue over a longer period and if society still wishes to express its support for the rearing of children, the changed circumstances of parents will mean that the community as a whole will have to think both about:

- (a) How to provide financial support so that where one parent wants to opt for rearing the children, this option is not closed off by lack of family income; and
- (b) How to provide child-care facilities for those families in which neither parent wants to take the main responsibility for full-time child-rearing. Financial assistance is probably not as important in such cases since with two incomes the family presumably can pay for child-care.

Other areas exist where new anomalies could arise from future changes, e.g., in the availability of part-time work opportunities and in the units of social organisation (family, neighbourhood, work co-operative, commune, etc.). Some individuals who are not fully occupied earning an income may wish to provide some sort of community service outside the avenues which are at present

available (mainly through funded voluntary agencies). To the extent that the state defines such activities as useful and deserving of support, it may be desirable to organise payment of "community service grants" or some other form of financial assistance. Such an approach could be particularly relevant where there are people unable to obtain satisfactory paid employment for months on end: it would offer them an alternative which would promote their self-image and sense of worth; in addition it would offer the community the possibility of having socially useful tasks done that would otherwise not be done.

Income maintenance, despite the many years on the drawing board and the fact that it has been a major focus of political attention, is just as much in need of radical review as any area of social policy. The immediate need, however, is to impart a sense of confidence that choices about the distribution of welfare are not dictated by short-term political expedience, and that clear principles of social justice are followed in extending assistance to all citizens in need. The Council believes that lack of clarity on this score has created divisions and resentments within society that already affect our productive effort as well as the broader social environment.

## THE WAY AHEAD

So far we have established that there are:

- Deep-seated processes of social change;
- Considerable defects in the present social welfare systems; and
- Arguments for the development of a philosophy about the new shape of the welfare state.

These conclusions do not in themselves help us to see the new directions. Having looked at the main forces which are the determinants of change and having glanced at the wider issues, we can however try to put forward a framework for future adjustments to social policy. In order to develop this new philosophy, the Council suggests that all aspects of social policy should be looked at as part of a two-way process.

**First (and foremost) they should be looked at "from the bottom up", as processes which respond to the perceived needs of society, and in which people have some wish to be**

involved. As noted above, this raises the question of public participation but it also covers the dynamic possibilities of community-based action which were highlighted by the Council in *Planning Perspectives*. We should as taxpayers remember the simple fact that by far the largest part of the nation's social interaction is carried out by people in their day-to-day lives, through contacts in the family, in the workplace and in the wider community. The state through its centrally-funded activities can provide no more than the oil to lubricate these processes; it cannot dictate what actually happens in society.

It is only at the point where people feel unable to cope, where professional or other services are needed, or where the job calls for additional resources, that the second aspect of the process is triggered off. In this phase the focus of activity moves away from the level of the individual or community towards a reliance on institutional provision. One expression of this is the growth of the bureaucratic element in the voluntary agencies. Typically, however, the call for outside assistance under the welfare state has taken the form of an appeal to government, either central or local. In cases such as accident, violence, illness and death, these appeals are invariably urgent and politically irresistible. In other areas, such as education and rehabilitation of petty offenders, there has over a period of time been an escalation of expectations of help from the state, so that we now overrate the ability of public institutions to have an impact on the problems faced by some individuals. As a result, the state is being asked to carry out (on behalf of an increasingly unwilling taxpayer) tasks which were formerly performed by family, community, church, or other networks in society. These tasks, furthermore, are often the consequence of "problems" which did not previously exist (e.g., family mobility, solo parenthood, isolation of the aged).

The appeal to an institution thus brings into play the "top down" approach to social policy. This is the process whereby political decisions at all levels of government (and also in bodies such as hospital boards) determine what services the people will have, where they will have them, and how they will be delivered. Central to the concept of political power in our type of democracy is the need for those who take such decisions to be accountable to the public. It will be seen, however, that one feature of the delivery of

health and education services (and of public sector activity in a number of areas of social policy) is a high degree of confusion or ignorance over who is accountable.

The Council believes that another important consequence of passing the responsibility to government or other agencies is that the citizen no longer feels involved in the solution to the original problem. It is over to "them". The payment of tax, however burdensome, becomes a proxy for social responsibility, and from there it is only a short step to the public apathy which so many recent commentators have singled out for criticism.

At the operational level, these arguments about political and social responsibility are bound to be regarded as theoretical. The other main feature of the "top down" approach to social policy, namely the mandate which is passed to institutions to deal with social issues, is much more important for those at the workplace. People who are working in the community, for example, can see that through the introduction of administrative and bureaucratic control the central agencies become insensitive to the real problems and, in the most extreme cases, this can lead to intrusion into personal privacy. The "clients" and "consumers" are understandably put out by the end-result. They are puzzled by the apparent inability of the "system" to perceive needs in the same way that they do.

There are consequently a number of concerned people, both inside and outside the government service, who argue for a shift in the balance of social policy back to informality—to the family, the workplace and the neighbourhood group: i.e., to the "bottom up" approach. Government, however, finds itself in a dilemma. Its political instincts, reinforced by many of the institutions of the public sector, will be to decide what *more* it should do and how much more *money* it should (be seen to) spend. The real need, if the welfare state is to find new directions in the 1980s, is for the state to do *less*, and at the same time assist *people* to do more for themselves. This will involve a shift in emphasis from the "top down" approach and the reliance on institutions, towards greater involvement and responsibility on the part of all citizens, i.e., a reinforcement of the "bottom up" participatory approach. This will call for a fundamental change in political and social philosophy. The Council recognises that such a change can take place only over time. It does not underrate the difficulty which many groups will face in adjusting to such a

radical shift of emphasis. Nevertheless, the process can be started now and in Part III the Council will be putting forward some suggestions about ways in which the first moves might be made.

In order to ensure that the Council's approach is not misinterpreted, certain points of clarification should be made:

- We are not saying that the state should drop all responsibility for the overall pattern of social development; on the contrary we are asking it to do this job *better* than it has in the past. The Council sees vital questions of equity, of distribution of resources and overall social planning which should remain the proper concern of elected government.
- We are not proposing that the safety net at present provided by the welfare state should be removed. New Zealand, by tradition and sense of fair play, accepts that society should underwrite assistance in cases of genuine need.
- We are not suggesting a cutback in "top down" activities just because of the burden they have created on the economy. The stresses created by a period of slow economic growth have certainly dramatised the need to re-think the welfare state (indeed, this was the original reason for preparing this report). But quite regardless of expenditure constraints, there are in 1979 well documented and powerful *social policy* reasons for asking whether the welfare state in its present form best serves the broader interest of New Zealand society.

## POINTERS FOR POLICY

In short, the Council's philosophy in no way ignores the needs of the disadvantaged. In order to make this clear, it is perhaps helpful to sketch for the longer-term the political implications of a shift of emphasis towards the "bottom up" approach. The following aspects are relevant:

1. We recognise that in the social field, as elsewhere, the real policy issues revolve around the distribution of power, responsibility and resources; we intend

that our suggestions concerning the design and delivery of social services should spread the burden of care and responsibility more widely within society. A vital feature of this would be to allow the control over the use of resources to be shared to a greater extent with those who are involved at the local and community level.

2. We see the shift as an avenue for obtaining better health, education and welfare services for all, but particularly for those in the disadvantaged groups who are at present not enjoying equality of access to social services (e.g., the housewife with pre-school children and no transport, the migrant handicapped by inability to speak English).
3. As a principle which is central to all areas of social policy, we believe in the greater efficacy of early *prevention* rather than later cure.

As a general comment, it is clear that New Zealand will have to look at a series of steps which need to be taken in order to move from what is practicable today to what is desirable tomorrow. One such step would be to look at all social spending by central government as a single "social budget". This would correspond with the technique used in Part I and would enable government to look systematically both at broad priorities and at an overall shift in social policy of the type we are advocating.

It may seem paradoxical that a change towards a more consolidated view at the central policy-making level would allow New Zealand to move away from the "top down" approach. Without some such shift at the national level, however, there is little that can be done to bring about the devolution of responsibility for a measure of funding and decision-making to local and regional bodies. These bodies are all restricted in what they can do by the present rigid divisions of central budgeting into separate areas of health, education and welfare. They need a national framework in which to operate and a "social budget" would provide a useful starting point. This could then be modified to take account of local experience and specific variations in age structure, employment patterns and special areas of need (such as those of rural communities). In this way the overall priorities as seen in the region could be reflected in a way that is difficult when dealing with separate departmental allocations.

Any such shifts are a long-term process, and this report aims to provide guidelines for a planning process (which is already under way) covering the next 5 to 10 years. The Council has therefore concentrated on medium-term changes in policy which would be consistent with changes in the approach to the welfare state. In the section on health, for example, we will advance one possibility for the raising of revenue on a regional or local basis—in the form of a supplementary tax on alcohol. We will offer some examples in the field of education of key decisions which could be influenced locally, such as the future use of space in educational and training facilities. We will also offer (in the health field) some cautions about what can happen when local interests become competitive over the acquisition of costly equipment.

The Council has noted the attempts which are being made in the physical planning area to enable a reconciliation of conflicting interests to come about at the regional level. Something similar could be initiated in the budgeting for different social services. The Council will be concentrating in a subsequent publication on the advantages to be derived from a measure of devolution both to the regions and to the local level. It recognises, however, that even a regional or local body can be classified as adopting a "top down" approach: the argument in this study rests primarily on the social policy reasons for greater involvement of the citizen at the "community" level. If the regional or local authority can be a genuine outlet for the expression of this aspect of community action, the argument will be doubly reinforced.

Finally, we do not wish to leave the impression that the present system has completely ignored the case for preventive, community-based welfare programmes and social work generally. Some \$40 million of the allocation to the Department of Social Welfare falls into this category. Other amounts flow from the Departments of Internal Affairs (including lottery funds), Education, Health, and Maori Affairs. Many of these activities fall naturally into the "bottom up" category. The Council's main concern at this stage is to ensure that they are seen as part of a wider rationale and not discarded as "optional extras". In particular, the long-term benefits of these preventive aspects of social policy need special emphasis in any document concerned with planning.



## SUMMING-UP

New Zealand is not alone in facing the various issues touched on above. The cumulative demands which citizens in a democracy can make on the welfare state are now a familiar feature of practically all western societies. To some extent the situation has been made worse by the pressures of a 3-year parliamentary term, but even without the same frequency of new policy proposals New Zealand would probably be asking the same questions about future directions for the welfare state.

Before turning to the four areas selected for study it is worth emphasising that there is a direct link between the social and economic imperatives facing New Zealand. In Part I we concluded that there is an economic rationale for holding the average growth of public sector expenditure below the rate of growth of gross domestic product during the next decade. **It should be reiterated that the Council is not recommending a reduction in present levels of public expenditure in the social area; what it suggests is a reduction in**

**the rate of increase of total public expenditure, including that in the social area, relative to the rate of increase of domestic production.**

In this section we have drawn out the social policy arguments for a shift away from past expenditure patterns which we see as having been dominated by the "top down" operations of public institutions. We have pointed out that a country can choose to make sacrifices to maintain high spending in this area. But if the results show no real progress towards a better society, one must conclude that the public interest would better be served by a shift towards a new framework for social policy. One must also have some confidence that within this new framework all New Zealanders will join in looking for techniques which avoid wastage of public moneys. We all pay for such waste wherever it occurs. In short the economic and social arguments come together to move us in the same direction. The main issue, as we see it, is how the welfare state can in the 1980s become more relevant to our changing society.

## HEALTH AND HEALTH CARE

### INTRODUCTION

Expenditure on health has been rising rapidly in New Zealand as it has throughout the developed world. Potentially, however, is well below that of the comparatively slow growth of the economy which is likely to be in New Zealand for the coming decade. It is clear that such a situation is not sustainable in the long term. It is our view that the rate of increase of public expenditure on health should be limited to the rate of increase of domestic production, that is, probably less than 2 percent a year.

The main points of these proposals are that the rate of increase of public expenditure on health should be limited to the rate of increase of domestic production, that is, probably less than 2 percent a year. This is a necessary condition for the health care system to be sustainable in the long term. It is also a condition for the health care system to be able to pay for the health care services which are needed by the population. The proposals are based on the following assumptions: that the health care system is a public good; that the health care system is a public good; that the health care system is a public good; that the health care system is a public good.

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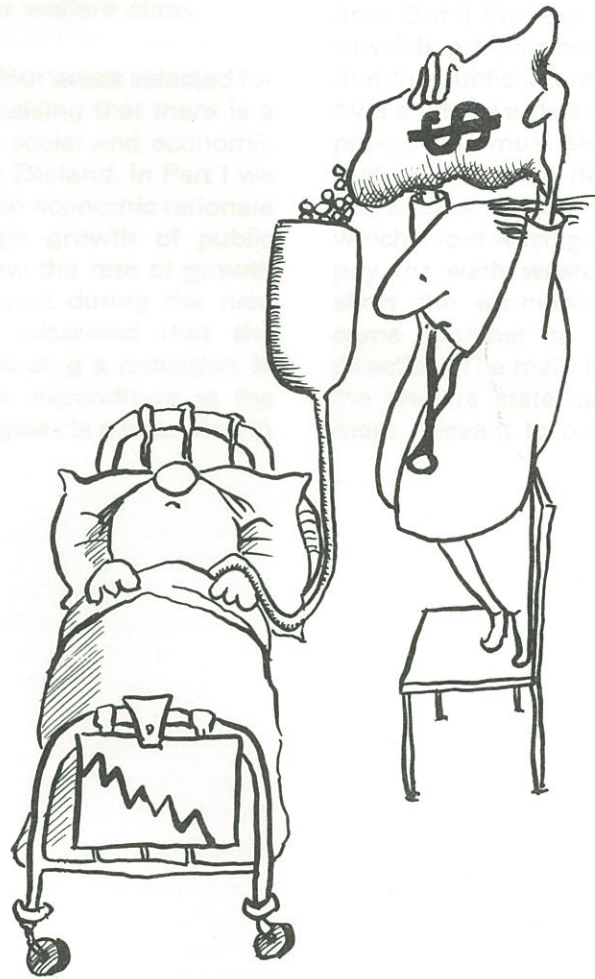
### Health Field Concept

A well conceived health policy must be concerned with the whole field of health. Health may be affected by:

- 1. Biological factors, which include genetic inheritance, the process of maturation and ageing, and the many complex internal systems of the body. Such elements contribute to many diseases, for example, arthritis and congenital malformation.

New Zealand is not alone in facing the health care problem. In other developed countries, the health care system is under increasing pressure. For some extent the pressure has been caused by the increasing of a 2-year compulsory term but such without the same frequency of the health care. New Zealand would probably be facing the same questions about the structure for the welfare state.

Before coming to the final report selected for study it is worth emphasizing that there is a clear link between the social and economic development of New Zealand. In Part I we concluded that there is an economic rationale for making the average growth of public sector expenditure below the rate of gross domestic product during the next decade. It should be understood that the Council is not recommending a reduction in current levels of public expenditure on health care. What it suggests is that the



**PART III (A)**

**HEALTH AND HEALTH CARE**

**INTRODUCTION**

Expenditure on health has been rising rapidly in New Zealand as it has throughout the developed world. Potential demand is without limit. However, the comparatively slow growth of the economy which is likely in New Zealand over the coming decade dictates that such demand be contained within the limits of economic reality. It is the Council's judgment that real growth in health expenditure should be restricted to the rate recommended for government expenditure generally, that is, no more than 2 percent a year.

Moreover increasing evidence is becoming available to suggest that additional expenditure does not of itself necessarily improve health. A majority of opinion, both medical and other, supports the view that improvements in the health of the community can most effectively be achieved by changes in lifestyle. The economic and health requirements therefore coincide: considerable savings could be made, and our health improved, if the individual New Zealander were to become more aware of habits which are beneficial to, or conversely, injurious to, good health. In this chapter we suggest ways in which this might be done.

In *Planning Perspectives* the Council, after wide consultation, proposed the following three principles on which there was broad agreement:

- That in the delivery of health services increased emphasis should be placed on health education, health promotion, and the prevention of disease and accidents (this includes attention to environment and lifestyle);
- That more emphasis should be placed on the development of public health services, such as occupational health;
- That policy should move towards the provision of community-based services, including voluntary services, and away from hospital-based services (hospital boards are themselves able to participate in this movement).

The main point about these principles is that they cover preventive health care, as well as health services. As such they depart from the traditional approach which has been concerned mainly with health services: that is, with repairing damage rather than preventing it. The Government took a step towards this wider approach when it appointed the Special Advisory Committee on Health Services Organisation (SACHSO). The committee has been given the task of advising the Minister of Health on how to modify organisation and planning to:

- Promote the health of the community;
- Reduce sickness, injury, and disability;
- Provide for adequate education, prevention, treatment, and rehabilitation services;
- Ensure the effective use and equitable distribution and availability of health resources.

**Health Field Concept**

A well-conceived health policy must be concerned with the whole field of health. Health may be affected by:

1. Biological factors which include a person's genetic inheritance, the process of maturation and ageing, and the many complex internal systems of the body. Such elements contribute to many diseases, for example, arthritis and congenital malformation.

- The environment in which people live. Individuals by themselves can exert little control over environmental pollution, the spread of communicable disease, and similar factors.
- Our own lifestyle. Personal habits that are bad from a health point of view create self-imposed risks which often result in sickness and early death.
- The quality of the organisations providing health-care. These include medical practice, nursing, hospitals, public and community health services, health-related voluntary organisation activity, and so on.

In considering appropriate policies in the health field, we need also to remember that health is a field involving choices and trade-offs. The subjective "quality" of a given life may, for instance, conflict with maximising the length of that life (e.g., driving fast cars for pleasure thereby increasing the probability of premature death).

New Zealand expert opinion is agreed that the main advances in health during the next decade will come from social change, changes in attitudes and in lifestyle in all its aspects. This area of policy requires major attention. Considerable progress can also be made in the field of health care organisation, and the Council has confined its attention to these two areas.

## LIFESTYLE

A number of features of our general lifestyle are known to contribute significantly to early deaths and to chronic illness or reduced capacity. Disabilities and diseases most commonly related to lifestyle are heart disease, cancer, and motor vehicle accidents. It is widely accepted that the general level of health can be improved also by individual attention to good nutrition habits and regular and safe recreation. In each of these areas the Government has responsibilities and opportunities to influence our general level of health.

Tobacco has acknowledged links with the current high levels of cancer and heart disease, and alcohol is also a direct contributor to the high level of road accidents. Both are firmly established as part of our social patterns and personal lifestyles. Unless the social patterns are changed it is unlikely that a great many individuals will feel strongly

encouraged to alter their lifestyles, even in the face of clear evidence that their expectations for the future could be improved thereby.

The debates that surround the involvement of central governments in modifying the behaviour of people are many and intense. We acknowledge the dangers of government interference in individual lifestyles and although we recommend strong government action, we wish to ensure that individuals retain their essential freedom to choose. We consider it reasonable, however, that if people choose to follow a lifestyle which significantly increases their risks to health, then they should contribute significantly to the central government funds from which their costs of care and treatment will be met.

## Tobacco and Alcohol

Despite the well publicised effects of smoking, tobacco consumption has increased from 2.2 kg per head in 1960 to 2.5 kg in 1977. This rise appears to be due at least in part to increasing smoking levels among young people, and young women in particular.

There has also been a dramatic increase in alcohol consumption, as shown in Figure 7.

TABLE 3  
ESTIMATED CONSUMPTION OF  
ALCOHOLIC BEVERAGES\*

	(Per Head of Total Population)		
	(Litres Per Annum)		
	Beer	Wine	Spirits
1940	51	0.9	1.2
1950	85	2.1	2.2
1960	100	2.1	2.4
1970	117	5.6	2.5
1977	131	10.3	4.7

Source: Department of Statistics.

The consequences of tobacco consumption are too well known to need documentation in this report. The effects of alcohol are even more pervasive. The social costs of the rising incidence of alcohol addiction are undisputed, and the effect of the consumption of alcohol on road accidents, crime, and other social disorders has been clearly established. Research overseas has proved a direct correlation between increases in alcohol consumption per head and the rise in alcohol-related problems. There is little doubt that the

TABLE 4  
ESTIMATED CONSUMPTION OF  
ABSOLUTE ALCOHOL\*

(Per Head of Total Population)

(Litres Per Annum)

	Beer	Wine	Spirits	Total
1955	4.0	0.3	1.2	5.4
1965	4.2	0.4	1.2	5.8
1975	5.4	1.2	1.8	8.4
1976	5.2	1.4	2.0	8.5
1977	5.3	1.5	2.0	8.8

Source: Alcoholic Liquor Advisory Council.

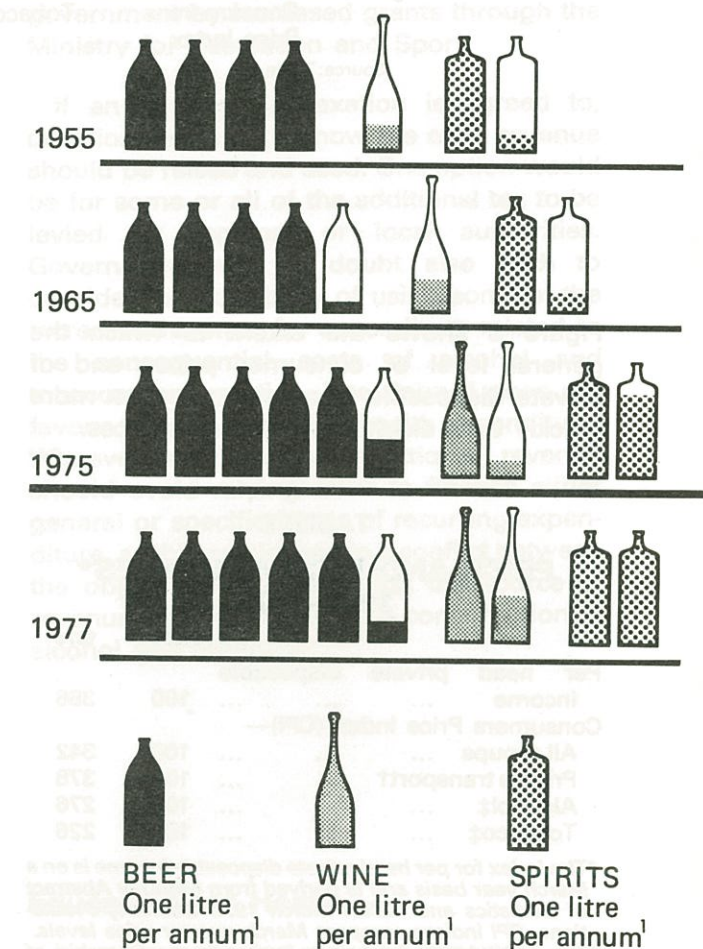
\*Although these tables take no account of such factors as changes in the composition of the population and in drinking habits generally and of men and women respectively the increases are so large as to make changes in such factors relatively unimportant.

increased consumption per head in New Zealand has similarly led to a rise in alcohol-related problems. For example, data published by the Alcoholic Liquor Advisory Council, covering the period 1960 to 1975, show a very strong correlation between per capita consumption of alcohol and the number of deaths attributed to cirrhosis of the liver. In the case of road accidents, work done by DSIR indicates that in 1977 alcohol was a relevant factor in at least 45 percent of all fatal road accidents. While no precise statistics are available, it is estimated that the number of chronic alcoholics is more than 50 000 and that the number of excessive drinkers could be as high as 200 000.

The consumption of tobacco and alcohol imposes costs on society well in excess of the price paid by the individual consumer. The group that places itself at risk should be required to foot a greater proportion of those costs. Significant amounts of New Zealand's health services costs are taken up, for example, in caring for the victims of traffic accidents and this precludes using those resources for other desirable purposes in health care or elsewhere. The Government in its 1977 Budget made particular mention of its concern at the high level of public expenditure in the areas of medical and hospital care, crime, police, social welfare and accident compensation, related to the consumption of tobacco and alcohol.

These problems have increased during a period when alcohol and tobacco have become markedly cheaper in relation to the prices of other commodities and to disposable incomes. The cost of private transport, on the other hand, has kept pace with increases in the overall consumer price index.

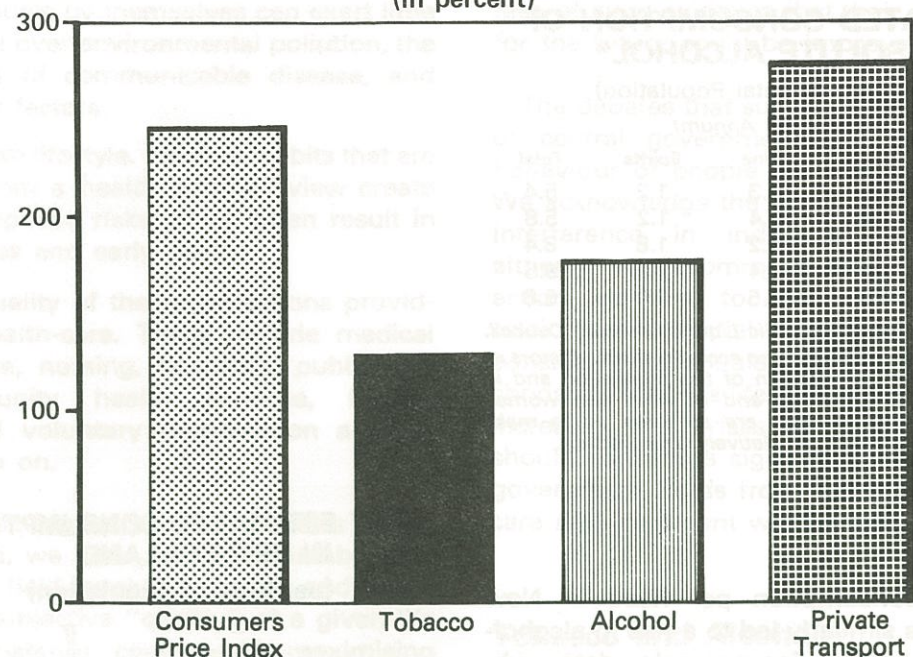
FIG.7 ESTIMATED CONSUMPTION OF ALCOHOL  
IN NEW ZEALAND  
(per head of population)



1) Absolute Alcohol Equivalent

Source: Alcoholic Liquor Advisory Council

FIG.8 PRICE INCREASES, 1960-1978  
(in percent)



Source: Table 5

Figure 8 shows the extent to which the general level of consumer prices and of private disposable incomes have risen more quickly than alcohol and tobacco prices.

TABLE 5  
PRICE AND INCOME INDICES\*  
1960-1978

	1960	1978
Per head private disposable income ...	100	386
Consumers Price Index (CPI)—		
All groups ...	100	342
Private transport† ...	100	378
Alcohol‡ ...	100	276
Tobacco‡ ...	100	226

\*The index for per head private disposable income is on a March year basis and is derived from Monthly Abstract of Statistics and NZIER March 1979 Quarterly Predictions. CPI indices compare March quarter price levels.

†The price index for private transport = ownership of used and new motorcars, plus maintenance and running costs.

‡The price indices for alcohol and tobacco are derived from information collected for the CPI. Before 1974 very limited numbers of items were included in the regimen.

The majority of the Council is satisfied that increases in alcohol and tobacco prices are justified and desirable. The higher prices would be a means of recouping some of the costs attributable to the use of alcohol and tobacco and would also discourage their

consumption. The target consumer here is not the existing problem drinker or heavy smoker, but the potential one. Price is known to have little effect on the confirmed addict but will in our judgment assist in deterring the potential addict.

**The Council recommends the imposition of taxes to result in a 25 percent retail price increase as soon as practicable. The additional tax revenue from this is estimated at \$140-\$170 million a year and the effect on the Consumers Price Index is likely to be about 2 percent. This recommendation is of more general significance if the Government intends to change the balance of tax revenue from direct to indirect sources. It is a matter for consideration whether this increase be across the board or differ between alcohol and tobacco.**

The relationship between price and alcohol content is commonly recognised as an important factor affecting the pattern of consumption. In view of this correlation the Council considers that customs and excise taxes should be based as far as practicable on alcohol content.

**The Council therefore recommends that tax on alcoholic liquor be based as far as practicable on alcohol content, regardless of whether the commodity is beer, wine, or spirits. A separate issue in this context is the question of whether there should be some differentiation to protect local industry and conserve overseas exchange.**

The main reason why prices of tobacco and alcohol have risen more slowly than consumers' prices generally is that the taxes and duties on these commodities are collected on a volume basis irrespective of value.

**The Council recommends that taxes should be based on value rather than volume. This means that in future the tax would increase as the before-tax price rises (whereas at present the tax remains unchanged).**

A policy of increasing indirect taxes to reduce the consumption of tobacco or alcohol would be undermined to the extent that such increases were accepted as justification for increased private incomes.

**The Council accordingly recommends that movements in indirect taxes on these products be excluded from any movements in prices that are taken into account in the fixing of wages, salaries, and other private income.**

The Council recognises that the abuse of alcohol is related to factors other than price. Higher taxation should be supplemented by other measures to reduce consumption. Regulations and practices governing the sale of liquor should be revised with a view to increasing the availability of food and alternative beverages in premises selling liquor. This would encourage a more civilised family atmosphere and discourage heavy consumption of alcohol. Particular attention should also be given to social patterns which result from legislation controlling the location of premises where alcohol is consumed. In addition the rules governing drinking and driving should be enforced more stringently. The Council supports the measures already being taken in this field. Other desirable measures are better education, more counselling, increased restrictions on advertising of alcohol and tobacco, reduction in the size of public bars, and promotion of the non-

smoking, moderate drinker image. Responsibility for these measures should be shared by a number of agencies such as the Alcoholic Liquor Advisory Council, the Licensing Control Commission, town planning and other local authorities. In particular, further disincentives to advertising these products would be both practicable and desirable.

**The Council recommends making advertising and other forms of promotion of alcohol and tobacco non-deductible for income tax purposes.**

In order that this change should not be to the detriment of those sporting and other non-profit making bodies that currently benefit from such advertising and other promotional expenditure, the Council recommends that these bodies be compensated by government by increased grants through the Ministry for Recreation and Sport.

If an increase in taxation is agreed to, questions arise about how the extra revenue should be raised and used. One option would be for some or all of the additional tax to be levied by regional or local authorities. Government will no doubt also wish to consider the possibility of using some of the increased revenue for expenditure related to the consequential costs of alcohol and tobacco consumption. The Council does not favour tying it directly to health expenditure. Whoever receives the additional revenue should avoid relying on it to finance either general or specific forms of recurring expenditure, as this would lead to a conflict between the objectives of maintaining the source of revenue and of reducing the consumption of alcohol and tobacco.

### Education for Health

Less dramatic but equally important elements of lifestyle are diet, physical fitness, and mental stress. Unsatisfactory diet and failure to keep fit, along with stress, probably play an important part in the rising incidence of diseases of the heart and blood vessels. Stress, related particularly to the working and home environments, is frequently the underlying cause for smoking, excessive consumption of alcohol, and even overeating. Stress also has clearly established effects on mental health.

The creation of greater awareness of the importance of good nutrition, adequate exercise and recreation is an essential part of preventive health care. A number of organisations such as the National Heart Foundation and the Alcoholic Liquor Advisory Council are working in this area. The Council would like to see more resources channelled to organisations which are willing and able to tackle these problems. The provision of adequate recreational and sporting facilities, particularly for the young, will not only increase physical fitness but also help avoid a good deal of crime which is stimulated by lack of employment and boredom. Considerable work is already being done by many voluntary organisations, assisted in some cases by funds from the Ministry for Recreation and Sport.

Young people and their parents are perhaps the group most needing advice on health care, and where education can pay the greatest long term dividends. New Zealand has in the past had innovative programmes for promoting child health, such as school dental services, health camps, school milk schemes and regular medical inspections. Some of these are now discontinued and there is evidence that child health needs are not being adequately met in certain areas. There is a need for a positive approach to avoid health problems, including better education through schools and through adult education.

Patterns of nutrition have changed and will continue to change. Frozen foods are widely consumed; takeaway bars provide large quantities of fried foods; and increasing volumes of snack foods are also being sold. Many of these products have a good nutritional content, but too great a reliance on convenience foods can result in diets containing excessive levels of fats and carbohydrates and inadequate levels of protein. It is the correct balance of foodstuffs in a diet that is important. Because of the long-term effects of diet on everyone and the critical short-term effects on children in particular, the Government should ensure that constant publicity is maintained on the benefits of a balanced and varied diet.

On the organisational side, the Council believes that many problems of mental and physical health or of social maladjustment remain undetected in the early stages as a result of inadequate co-ordination among the various agencies in the health and education fields. The Council recommends a co-

ordinated effort by health and social workers and teachers, working especially through health centres and primary schools, play-centres, kindergartens and day-care centres, to detect children with problems and, with the co-operation of parents, to promote action to deal as early and as effectively as possible with these problems. The Council further recommends that the Social Development Council be given the responsibility for monitoring progress in this area.

## TRENDS AND PROSPECTS IN HEALTH SERVICES

### Health Expenditure

There has been a large increase in health expenditure both absolutely and relatively throughout the developed world. New Zealand's total expenditure on health (both public and private) is now estimated at about 6.8 percent in terms of gross domestic product. Table 6 (opposite) shows government health expenditure only.

In the period under review, health expenditure has almost doubled in terms of GDP. Since GDP has itself increased, this means that there has been a dramatic rise in state-financed health care per head of population. The rise has accelerated in the last 5 years when real health expenditure (adjusted for inflation) rose by 5 percent a year. Until recently spending on institutional health services increased substantially as a percentage of total health expenditure and the share allocated to community health services decreased proportionately.

In planning government expenditure in the decade ahead it is necessary to make a value judgment about the rate of increase in real health expenditure which will produce socially acceptable and cost-effective improvements in health and health services.

It is now agreed by those working in this field that there is an increasing gap between the medically possible on the one hand, and what a society can afford on the other. Sir Randall Elliot in his 1977 presidential address to the New Zealand Medical Association said: "No nation, no matter how wealthy, can afford all the services that are possible to medical science." Moreover, even if we could afford substantially more resources, it would

TABLE 6

### TOTAL NEW ZEALAND GOVERNMENT HEALTH EXPENDITURE

Year Ended 31 March	Total \$(m)	Expenditure Per Capita \$(m)	Expenditure Relative to GDP		
			Current %	Capital %	Total %
1950	34	18	2.8	0.2	3.1
1960	90	38	3.2	0.4	3.6
1970	200	72	3.7	0.4	4.1
1975	481	158	4.6	0.4	5.0
1978	785	251	4.9	0.5	5.4
1979	950	305	5.2	0.6	5.8

Source: Companion Volume and New Zealand Official Yearbooks.

be illogical to use them unless the resulting benefit was greater than from directing the same amount of resources to other activities. In other words, we must recognise that by using resources for medical care we forego the opportunity to use those resources elsewhere.

Related to this issue is the question of the extent to which increased expenditure can in fact significantly improve the health of the population at large\*. For example, recent studies show that life expectancy for several age groups is no longer improving, despite advances in medical techniques which have led to important breakthroughs. There appear to be strong constraints on increasing life span significantly by medical means alone. As pointed out above, improvements in the health status of the population are now more likely to come from improved lifestyles.

In considering an appropriate rate of increase in government health expenditure the Council had regard to a number of factors including:

- (a) The expected slow growth of the economy as a whole;

\* The Minister of Health, the Hon. G. F. Gair, has discussed this issue several times recently: "The benefits arising from the spending of further vast amounts of money on sophisticated equipment (in the health field) tend to diminish as the amount of money goes up." (Address to the conference of the Printing Institute, 8 March 1979.) "(Figures show) that public health expenditure, in constant values, rose from about \$6 a head in the 1920s to nearly \$100 a head by 1978... Unfortunately, this increase in financial inputs has not been matched by corresponding improvements in our health status." (Address to Hospital Boards' Association's Biannual Conference, 14 March 1979.)

- (b) The desirability of limiting the increase of Government expenditure in terms of gross domestic product;
- (c) The rapid increase in health expenditure particularly in the past 4 years;
- (d) The possibility of improving the effectiveness of health care delivery by using existing resources more efficiently;
- (e) The slower rate of population increase and the changing composition of population;
- (f) The limited extent to which more expenditure on health can in fact improve health.

**Even taking all these factors into account it is extremely difficult to arrive at an appropriate rate of increase in health expenditure. However, having particular regard to the fact that growth in GDP is likely to be 3 percent a year or less; that Government expenditure should rise more slowly than GDP; and that health expenditure has risen rapidly in recent years, the Council recommends that for planning purposes a rate of increase in real terms of no more than 2 percent a year be accepted for the decade ahead.**

In the next 2 or 3 years even this increase may be too high. This is a much lower rate of increase than has taken place in the past decade and especially in the last 5 years. It is therefore particularly important that the limited increase which can be afforded is used where it can be most effective. It is, of course, open to individuals to supplement through private health schemes the services provided by the state.

In the rest of this chapter we wish to establish six major propositions which, taken together, should form an effective basis for health expenditure planning for the years ahead:

- (a) Health care must be *better planned* at all levels;
- (b) The present delivery of health care could be made more effective by *improved techniques of hospital board funding* and by the formation of regional health boards;
- (c) The health service could be improved by speeding up the systematic *manpower planning* which has been started recently. The recruitment and training of health service administrators and supporting personnel should also be improved;
- (d) There is now *excessive emphasis on institutional services*. Such increase in health expenditure as can be afforded should go into other areas;
- (e) There should be a *more efficient use of resources*. One proposal to this end is the establishment of a small multi-disciplinary team to evaluate new expenditure proposals and look at the effectiveness of existing techniques;
- (f) The recent government initiatives which have resulted in some increased *spending on community health services should be further expanded*.

## Planning and Organisation

One of the major difficulties facing hospital boards and other health agencies in New Zealand is the absence of any statement of objectives and a strategic plan indicating the scale of resources likely to be available to meet those objectives. As a basis for better planning, there is a need to establish such policy objectives as precisely as possible and to develop more appropriate health indicators so that judgments can be made of how far the objectives of policy are being achieved.

At the same time as preparing a national plan, regional health plans should also be developed, in conjunction with other regional planning initiatives. Such plans should be given maximum flexibility, with central involvement limited to advising on policy objectives and resource constraints. There is a need for improved planning at two levels therefore—national and regional—and over two time scales—medium and short term.

### *In the medium term, the Council believes there should be a reorganisation of hospital boards.*

One of the main reasons for the emphasis on hospital services has undoubtedly been the present organisation of hospital boards which, are primarily concerned with hospitals rather than with health or health care in the wider sense. Having regard to the health field concept, the Council considers that the more appropriate organisation is to divide the country into regional health authorities which would be concerned with all aspects of health and health care. Already SACHSO has established a pilot scheme in Northland and a further experiment in Wellington is proposed. Similar attempts are being made in other parts of the country as well, all with a view to reorganising the delivery of health care to become less institution-oriented and to devolve more responsibility and decision-making to the immediate community. The Council considers that the reorganisation of the health services on these lines should be speeded up substantially and more resources should be made available for the purpose. Such reorganisation would also facilitate a relative shift of resources into community and home health care.

In the shorter term, we need to look at the existing system and ways in which it can move towards this medium-term objective.

### *As a first step, the Council believes it is desirable that changes be made to the way hospital boards are funded.*

The Government has recognised the need for improvements in hospital board budgeting: the Public Expenditure Committee in 1976-77 conducted an investigation into the financial operations of boards, paying particular attention to improvements which might be made to existing financial management procedures in hospital boards throughout the country. The Council is in agreement with most of the committee's conclusions, but believes there is room for action further to that recommended.

Considerable difficulties are involved in determining the various levels of funds appropriate for different hospital boards. In brief, these difficulties are:

1. The larger hospital boards are expected—and in many cases actively seek—to provide specialised facilities and services which can only be justified on the basis of regional or national population.
2. Because hospital boards are not responsible for raising their own revenue, there is a tendency to seek to maximise expenditure (cf. other local authorities where reliance on electors for operating funds is an incentive towards economy).
3. Allocations to individual hospital boards are based largely on history rather than on any systematic attempt to calculate the specific needs of particular areas.

The Council recognises there is no simple solution to these problems, but would suggest that the following changes might lead to a better allocation and more efficient use of resources:

1. Resources should be allocated to hospital boards under two headings: "national health services" and "regional health services".

(a) Those functions which are performed by only a limited number of hospitals ("national health services") should be separate from other standard functions and planned and funded accordingly. Such functions might include cardio-thoracic surgery, neuro-surgery, particular teaching services and the like;

(b) The remaining functions ("regional health services") which account for the great bulk of expenditure even by the large hospital boards, should be funded on the basis of population factors and other specified criteria. The aim should be to develop a block grant system of funding on the basis of these criteria which would however allow flexibility for local variation and innovation.

2. The Council considers the present system's containment of operational expenditures to within the single financial year to be unnecessarily rigid and arbitrary. It is suggested that:

(a) To the extent that a hospital exceeds its annual allocation, the excess amount should, within prescribed limits, automatically be deducted from the following year's block grant;

(b) To the extent that a hospital board makes savings attributable to man-

agement initiatives in any one year, provision should be made to enable a specified proportion of those savings—say, a half—to be carried forward to the following year.

## Health Manpower Planning

Manpower represents the most important and costly resource in the provision of health care. Three out of every four dollars spent on health services are paid out as either wages or salaries.

Many countries report shortages or surpluses of particular types of health workers but few regularly review the use made of existing manpower. The necessity to do so is highlighted by the fact that changing technology, the shift to community health services, and greater emphasis on preventive medicine, will increase the importance of many types of professionals in total health manpower. Apart from clinical work, the role of the doctor will increasingly become that of a member of a multi-disciplinary team. In addition, a good deal of work now being done by doctors could in future be carried out by other health workers.

### *The Council accordingly recommends the development of systematic planning for the recruiting and continuing education of all categories of health workers, not only medical practitioners.*

In New Zealand the first comprehensive report on Health Manpower Resources was produced by the Department of Health in 1978. However, this report was designed to analyse the present position of 27 professional groups without considering future needs. While work has been done on manpower planning for some groups, the Council recommends that the Department of Health's health manpower planning capacity be strengthened and the programme of work accelerated. Such planning must of course be done in the context of the objectives of the system as a whole and these objectives should be made explicit (see discussion in "Planning and Organisation").

The Council has looked in some detail at medical manpower planning because of the major impact on health expenditure of

doctors and because of the long lead time before changes can become effective (on average it takes 8-10 years from the time a medical student enters training to become a fully effective doctor).

Last year the Medical Council established an Advisory Committee on Medical Manpower. In its recent report the Committee looks at the need for doctors up to 2001, taking into account both the general economic outlook and the fact that doctors are not only expensive to train but once working exercise a major influence over expenditure (by way of more services, more drugs, more equipment, more buildings and more supporting staff). While no data are available on the resources used by each new doctor in the system, on the basis of those working at present it is estimated that the undergraduate training costs per doctor are \$60,000 and that once working each specialist influences expenditure of about \$250,000 per annum and each general practitioner of about \$100,000 per annum. The Council has kept in close touch with the work of the Advisory Committee and agrees with its views. We think it appropriate to summarise its findings and recommendations here:

1. The number of doctors in New Zealand had doubled since 1956, with a particularly large increase (40 percent) recorded between 1971 and 1976. The population-per-doctor ratio has correspondingly decreased from 961 people per doctor in 1956 to 772 in 1976.

**TABLE 7**  
**DOCTOR NUMBERS IN NEW ZEALAND**

Census	Number of Doctors in New Zealand	Population Per Doctor
1956	2 262	961
1961	2 573	938
1966	2 838	943
1971	3 080	929
1976	4 306	772

Source: Department of Statistics Census figures.

2. Medical Council survey figures since 1976 show increases of between 3 and 4 percent a year. It is difficult to determine to what extent this increase in the doctor-to-population ratio has improved health care. In the past it had been assumed that more doctors in relation to population were desirable. Recent overseas research, however, suggests that rising doctor numbers do not necessarily lead to better public health.

3. In New Zealand doctor-to-population ratios still differ markedly in different parts of the country and there are still shortages of general practitioners and other doctors in lower income and rural areas. There is also the question of maintaining an appropriate balance between general practitioner services and high cost specialist services. There is no agreed ideal ratio of doctors to population, general practitioners to specialists or manpower distribution among different specialist types. These are complex issues influenced by historical patterns of care, the social role of health services, the public and professional expectations of those services, and the resources the taxpayer is willing to allocate for their provision.

*If the medical profession itself is unable to resolve the problems of distribution it may be necessary to develop health benefit and employment incentive policies so that in future serious shortages of doctors in particular geographical areas and for particular specialist types can be avoided. Such incentives could take the form of higher incomes, loan assistance and other facilities in areas of shortage.*

4. The recent expansion of intakes of student doctors was based on estimates of higher population growth and lower doctor immigration growth than has actually eventuated. The number of New Zealand graduates has risen from about 100 per year in 1970 to 200 in 1976 and is expected to reach 320 per year from 1981 onward. This domestic growth has been aided by a net immigration gain of doctors of more than 100 per year over the same period (1970-76). Given—

- (1) That our population increase is expected to be modest, and
- (2) That each additional doctor creates additional demand and generates costs for the health system substantially greater than mere income—

it must be concluded that the projected increase in doctor numbers will lead to a large over-supply of doctors. At current trends, expenditure created by new doctors alone will be well in excess of the Planning Council's guidelines for all health expenditure of not more than 2 percent. Without immediate action to slow down the increase in doctor numbers, there will be no latitude to divert resources to non-doctor related health services. Yet there is ample evidence that many

tasks now performed by doctors could equally well be done by other health workers.

In the light of these facts and having regard to the evidence which suggests that beyond a certain point, an increase in doctor numbers does not necessarily bring about improved health care, the Council considers that further significant increases in the number of doctors would not be justified, because they would not be cost-effective. If we allow for an increase in doctor numbers of 1 percent a year we would need 4981 doctors in 1991. (If a 2 percent increase in doctor numbers were thought appropriate, we would require 5662 doctors.)

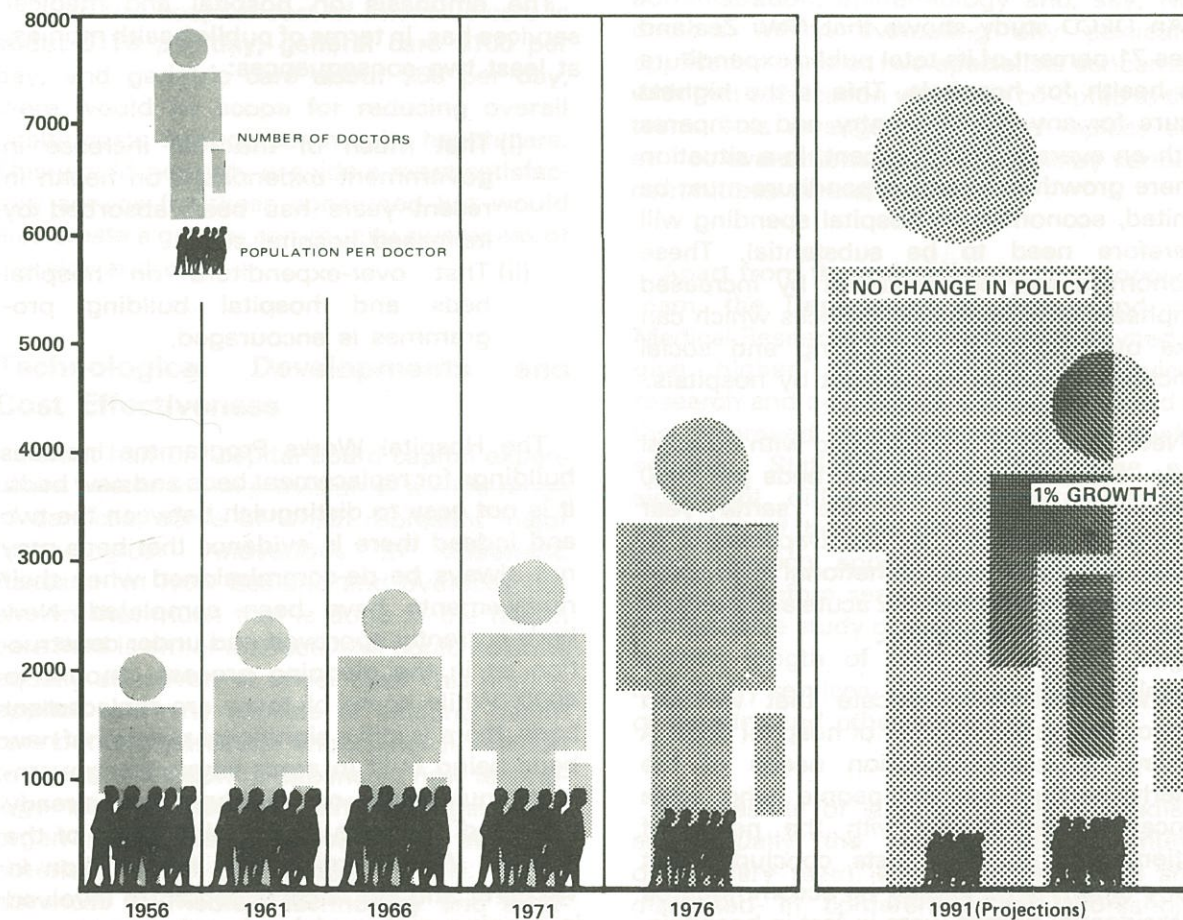
5. The major factors which will determine the supply of doctors in the future are:

- The output of medical schools;
- Immigration and retention of overseas trained doctors;
- The extent to which New Zealand graduates stay in New Zealand and remain in active practice over their working life;
- Conditions and pay levels of medical practice.

Taking these factors into account, the Health Department has forecast that 7365 doctors will be available in 1991 on the basis of existing policies. As only 4981 would be required however (assuming 1 percent growth), this would mean a surplus of nearly 2400 (or 1700 in the case of 2 percent growth). The Government can influence this number by reducing the intake into medical schools and controlling immigration of doctors. The Council concurs with the recommendations of the Advisory Committee on Medical Manpower in this regard, viz.:

- (a) *That the intake of medical students be reduced substantially as soon as possible. The intake should be reduced from the present level of 320 students a year to 250 students in 1980 and subsequently there should be an annual review of medical intakes. Any spare capacity resulting therefrom should be used for post-graduate training and for training of people who although not doctors would work in the health field, including health service administrators.*

FIG.9 DOCTOR NUMBERS IN NEW ZEALAND



SOURCE: TABLE 7

(b) *That limitations be placed on the immigration of foreign doctors. While it would neither be practicable nor desirable to stop immigration altogether (even in a situation of overall surplus, there will always be doctor shortages in particular areas or specialities which cannot be filled by New Zealand doctors) the present high rate of immigration can no longer be justified and should be reduced substantially. The problem of doctor shortages in certain geographical areas or types of specialisation cannot generally be solved by immigration except in the very short run. Other approaches to this problem appear likely to be more effective.*

It should be noted that even if the above measures are taken, a sizeable surplus will still remain: 1500 on a 1 percent growth assumption and 800 on a 2 percent growth assumption.

### Hospital Services

By far the largest proportion of public health expenditure goes in grants to hospital boards.

An OECD study shows that New Zealand uses 71 percent of its total public expenditure on health for hospitals. This is the highest figure for any OECD country and compares with an average of 62 percent. In a situation where growth in health expenditure must be limited, economies in hospital spending will therefore need to be substantial. These economies can be facilitated by increased emphasis on community services which can take over some of the caring and social functions currently carried out by hospitals.

New Zealand is well supplied with hospital beds—6.3 acute and geriatric beds per 1000 population in 1977. In the same year guidelines produced by the Department of Health suggested that the national need could be met adequately with 5.2 acute and geriatric beds per 1000 population.

Other facts also indicate that we can economise on the number of hospital beds. A survey on accommodation needs of the elderly carried out by people who were concerned exclusively with the needs of patients and not with costs, concluded that many elderly who should be accommodated in residential homes were in fact in hospitals.

The statistics show that 17 percent of all elderly in public hospitals and 30 percent of the elderly in private hospitals should not have been there. These people are occupying beds in very high cost, all-purpose hospitals when they could be cared for in lower cost institutions or in the community. It may also be possible to reduce public expenditure on health by spending less on publicly owned hospitals—which tend to be designed to cater for a full range of expensive and specialised services—and providing greater subsidies and encouragement to privately owned institutions.

Another study shows wide variations in length of average stay in different hospitals in New Zealand of people with various diseases, as the following figures show:

		Range (Days)
Asthma	... ..	6.9–19.2
Diabetes	... ..	16.4–26.4
Varicose veins	... ..	8.7–16.2

Although there may be justification for some of these differences, there is undoubtedly scope for reduction in the average length of hospital stay.

The emphasis on hospital and medical services has, in terms of public health monies, at least two consequences:

- (i) That much of the real increase in government expenditure on health in recent years has been absorbed by increased hospital staff;
- (ii) That over-expenditure on hospital beds and hospital building programmes is encouraged.

The Hospital Works Programme includes buildings for replacement beds and new beds. It is not easy to distinguish between the two and indeed there is evidence that beds may not always be de-commissioned when their replacements have been completed. New beds currently approved and under construction or in the planning process amount to 4000. While some of these are replacement beds, there is still a significant number of new beds being built in areas where the government guidelines on numbers are already exceeded. Because of the high costs of the Hospital Works Programme (\$51 million in 1977–78) and the large expenditure involved in running and servicing hospital beds once

established, the Council recommends that the Programme should be reduced by relating proposals more closely to the guidelines and deferring authorisation of replacement beds wherever practical. Similarly there should be no new commissioning grants where guidelines have been achieved. The long-term trend to shorter stays in hospitals is furthermore likely to mean that fewer beds per capita will be needed in future.

### Community Health Services

There is wide agreement that a move away from predominantly institutional care to community and home health care is not only better from the patient's point of view but is also probably more cost effective. It is important that community care services extended from hospitals be fully integrated with services based in the community. Effort should be made to ensure that general practitioners and other community-based workers are fully involved in the care of patients before, during and after hospital admission.

*As far as possible care should centre on the home and the community not the hospital.*

Given the hospital cost of intensive care is about \$170 per day, general care \$100 per day, and geriatric care about \$50 per day, there would be scope for reducing overall health costs through community health care. This would not only provide a more satisfactory service for those concerned but would also create a greater community awareness of the sick and old.

### Technological Developments and Cost Effectiveness

About half of hospital board capital expenditure relates to the provision of a wide range of services, some of which represent major technological innovations in treatment. Research in New Zealand and overseas has shown that much that is done in the health care field is either ineffective or could be done equally effectively at lower cost. This finding applies to many aspects of existing health care but is of particular importance in relation to the introduction of expensive new technology such as coronary artery surgery and organ investigating devices such as computerised axial tomography (CAT). Many advances in medical technology and treatment procedures are capital intensive, are

costly to operate and require very highly trained personnel. Since resources are limited it is essential that all new developments be systematically evaluated on a pilot study basis before nationwide introduction is approved. It is also essential that the prestige associated with some high technology developments not be allowed to take precedence over less dramatic but more cost-effective proposals in other areas.

*Because of the technical nature and high costs of many new and existing techniques and pieces of equipment, the Council considers that a small multi-disciplinary team, serviced by a full-time director, should be established to evaluate and advise the Minister of Health through the Department of Health on all proposed new expenditures in excess of say, \$250,000. This team would also be charged with evaluating existing applications as soon as its resources permit.*

Such a team might be chaired by a senior professional of high standing and should include people experienced in business, economics, sociology, hospital board administration, epidemiology and, say, two doctors. When evaluating any particular application, one or two specialists concerned with that application would be co-opted to the team. This arrangement would replace the ad hoc evaluations presently done by various committees or individuals.

Apart from the evaluation by the proposed team, the Department of Health and the Medical Research Council should be invited to give higher priority to health services research and development activities aimed at the improved cost-effectiveness of health services. Statistics show that there are significant differences in the per capita spending of hospital boards which in most other respects appear to be similar. There would therefore seem to be ample scope for comparative study of such matters as disease, specific length of stay, the use of drugs, laboratory services, and the relative efficiency of laundry and other services.

The results of such comparative studies, and equally the findings of the multi-disciplinary team, should be presented and discussed in conferences and workshops specifically arranged for that purpose. Such



forums would enable a wide range of interested researchers, medical personnel and technologists to comment upon the results and would help ensure that the basis for future decisions is debated and explored in depth.

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## SUMMING-UP

There is increasing evidence to suggest that additional spending on health care does not in itself necessarily improve health. Improvements in the health of the community can most effectively be achieved by changes in lifestyle and community attitudes. Greater awareness of the effects of drugs of all kinds and of the importance of good nutrition and adequate exercise and recreation, is an essential part in bringing about such change. Education to this end is very important. While the Council believes that responsibility for people's lifestyle must in our society rest with the individual, some measure of government intervention is justified. The Council has proposed higher taxes on tobacco and alcohol, and other techniques designed to persuade people to take more responsibility for their own health.

The Council had difficulty in arriving at an appropriate rate of increase in health expenditure. While in early discussions some members felt that there should be no real increase in the decade ahead, the Council concluded that growth of health expenditure in line with the increase in overall government expenditure can be justified.

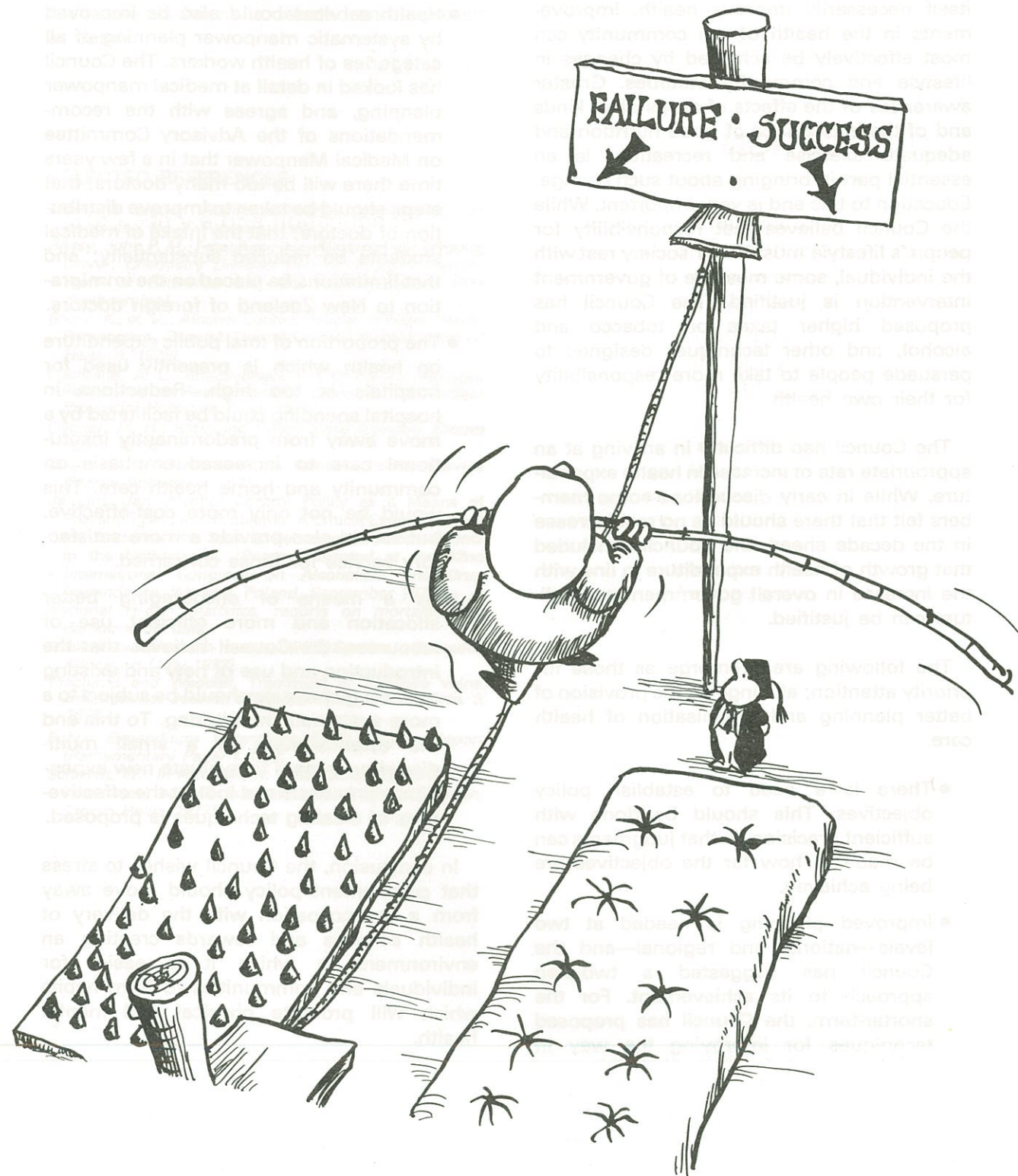
The following areas emerge as those for priority attention; all hinge on the provision of better planning and organisation of health care.

- There is a need to establish policy objectives. This should be done with sufficient precision so that judgments can be made of how far the objectives are being achieved.
- Improved planning is needed at two levels—national and regional—and the Council has suggested a two-step approach to its achievement. For the shorter-term, the Council has proposed techniques for improving the way in

which hospital boards are funded. In the medium-term, the Council believes there should be a reorganisation of hospital boards into regional health authorities.

- Health services could also be improved by systematic manpower planning of all categories of health workers. The Council has looked in detail at medical manpower planning, and agrees with the recommendations of the Advisory Committee on Medical Manpower that in a few years time there will be too many doctors; that steps should be taken to improve distribution of doctors; that the intake of medical students be reduced substantially; and that limitations be placed on the immigration to New Zealand of foreign doctors.
- The proportion of total public expenditure on health which is presently used for hospitals is too high. Reductions in hospital spending could be facilitated by a move away from predominantly institutional care to increased emphasis on community and home health care. This would be not only more cost-effective, but would also provide a more satisfactory service for those concerned.
- As a means of encouraging better allocation and more efficient use of resources, the Council believes that the introduction and use of new and existing medical techniques should be subject to a more systematic monitoring. To this end the establishment of a small multi-disciplinary team to evaluate new expenditure proposals and look at the effectiveness of existing techniques is proposed.

In conclusion, the Council wishes to stress that government policy should move away from a preoccupation with the delivery of health services and towards creating an environment in which it is easier for individuals and communities to form habits which will promote physical and mental health.



## PART III (B)

# EDUCATION

## INTRODUCTION

Most New Zealanders set considerable store by education and expect a great deal from the schools and other institutions which have been established to help provide it. There is wide acceptance of the concept that a good education for all, regardless of the financial means of parents, is a prerequisite for equality of opportunity. Education is seen as an investment in tomorrow's producers as well as a way of assisting individuals to develop their talents and to find satisfaction and fulfilment in life.

Successive governments have devoted substantial resources to helping individuals achieve educational aspirations for themselves and their children. Free or heavily subsidised services are provided for all children at primary and secondary schools, for many other young people before and after the years of compulsory schooling, and for an increasing number of adults seeking further education.

### Trends in Expenditure

In the post-war period, the Government's net expenditure on education has generally risen more rapidly than the gross domestic product. It is now equivalent to about 5½ percent of GDP compared with about 2½ percent in the early 1950s.

TABLE 8

### NET EDUCATIONAL EXPENDITURE AS PERCENTAGE OF GDP

	Current	Capital	Total
1951-55	2.0	0.5	2.5
1956-60	2.3	0.6	2.9
1961-65	2.6	0.7	3.3
1966-70	3.2	0.7	3.9
1971-75	4.2	0.8	5.0
1976	4.5	1.1	5.6
1977	4.3	0.9	5.2
1978	4.6	0.9	5.5
1979	4.9	0.8	5.7

Source: Companion Volume.

A similar trend has been experienced throughout the developed world. Several

factors have been responsible for the increased spending, among which the following two are fundamental:

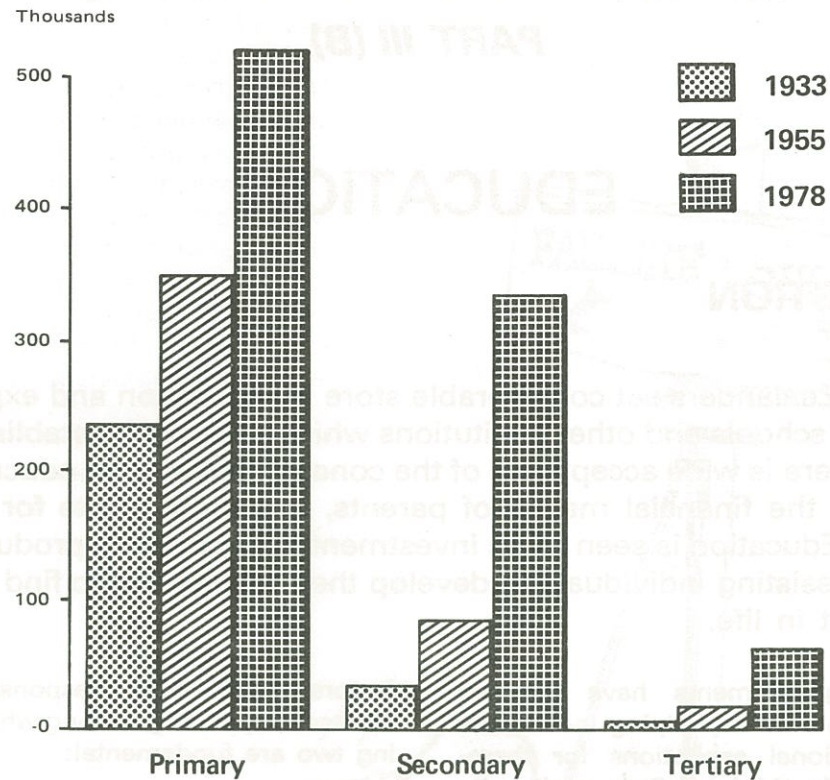
(a) Post-war the numbers of children of compulsory school age have risen appreciably, and an increasing proportion has taken the opportunity to stay at school longer\* and to proceed to higher education. Between the 1940s and 1970s roll numbers at educational institutions grew apace, as Figure 10 indicates. The combined rolls of schools, colleges and universities rose from about 20 percent of the population immediately after the war to nearly a third of the population in the early 1970s.

(b) Secondly, staffing has increased more rapidly than roll numbers in most sectors†. The percentage of the labour force employed in the public sector of education rose from about 2.8 percent in 1960 to about 3.8 percent in the mid-1970s. Personnel costs make up 75-80 percent of educational expenditures other than building. Changes in pay rates can

\* Between 1948 and 1977, the proportion of secondary students staying at school for 3 or more years rose from 48 percent to 82 percent. Between 1951 and 1976, the percentage of each age group getting University Entrance rose from 13 percent to 26 percent, or in numbers from 1701 to 16 656.

† The teacher-pupil ratio in 1977 was 1:24.5 in primary schools, and 1:17.4 in secondary schools, compared with 1:32 and 1:20.3 respectively in the mid-1940s. These ratios are, of course, averages for the country as a whole. They will vary somewhat from school to school. So also will the effectiveness with which available staff is used.

Fig.10 GROWTH OF STUDENT NUMBERS, 1933 - 1978



Source: New Zealand Official Yearbooks

therefore influence expenditure appreciably; significant improvements in salaries were an important reason for the acceleration of spending in the early 1970s.

The following table shows the allocation of educational expenditure by the Government in the years ending March 1951, 1972, and 1979:

TABLE 9  
CATEGORIES OF EDUCATIONAL EXPENDITURE 1951-1979

March Years	1951			1972			1979*		
	\$(m)			\$(m)			\$(m)		
State primary	...	17	102	296	57	31	32	...	...
State secondary	...	7	66	224	23	20	24	...	...
Universities...	...	2	57	161	7	17	17	...	...
Teacher training	...	2	26	59	7	8	6	...	...
Early childhood	...	...	2	14	...	1	2	...	...
Assistance to private schools...	...	...	5	29	...	1	3	...	...
Senior technical and community education	...	2	14	68	6	4	7	...	...
Administration and support of schools, etc	...	...	60	80	...	18	9	...	...
<b>Total</b>	...	<b>30</b>	<b>332</b>	<b>930</b>	<b>100</b>	<b>100</b>	<b>100</b>	...	...

\*Estimates.

Source: New Zealand Official Yearbooks and Department of Education.

Other Delivery

Agencies

State institutions are not the only agencies involved in providing education. A significant, if declining, proportion of children attend private schools, accounting for over 9 percent of primary enrolments and about 14 percent of secondary enrolments. The state has granted increasing assistance to private schools in the 1970s; between 1971-72 and 1977-78, expenditure on this assistance rose from 1½ percent to over 3 percent of Vote: Education. Private schools now have the option of integrating into the state system. It is expected that a high proportion, especially of Catholic schools, will exercise this option in the next few years.

State provision of resources in educational institutions is often supplemented by voluntary effort. The amount of voluntary activity is greatest in early childhood education and diminishes at higher institutional levels. The playcentre movement, for example, is based on parental involvement with their children's development of play with others. The importance of continued co-operation between teachers and parents is becoming more widely recognised in primary and secondary schools.

Education is more than schooling. What children learn is greatly influenced by forces in the community, outside the home and school. The advent of television has been a significant development. In addition to using public facilities like libraries and museums, many schools are putting increasing emphasis on tapping the experience of people and utilising facilities outside the school to help children learn. Developing the capacity and the desire to go on learning without the help of professional teachers must be a major criterion of the success of any educational programme.

Another important recent trend has been the expansion and diversification of opportunities for tertiary and continuing education, including the return of some adults to

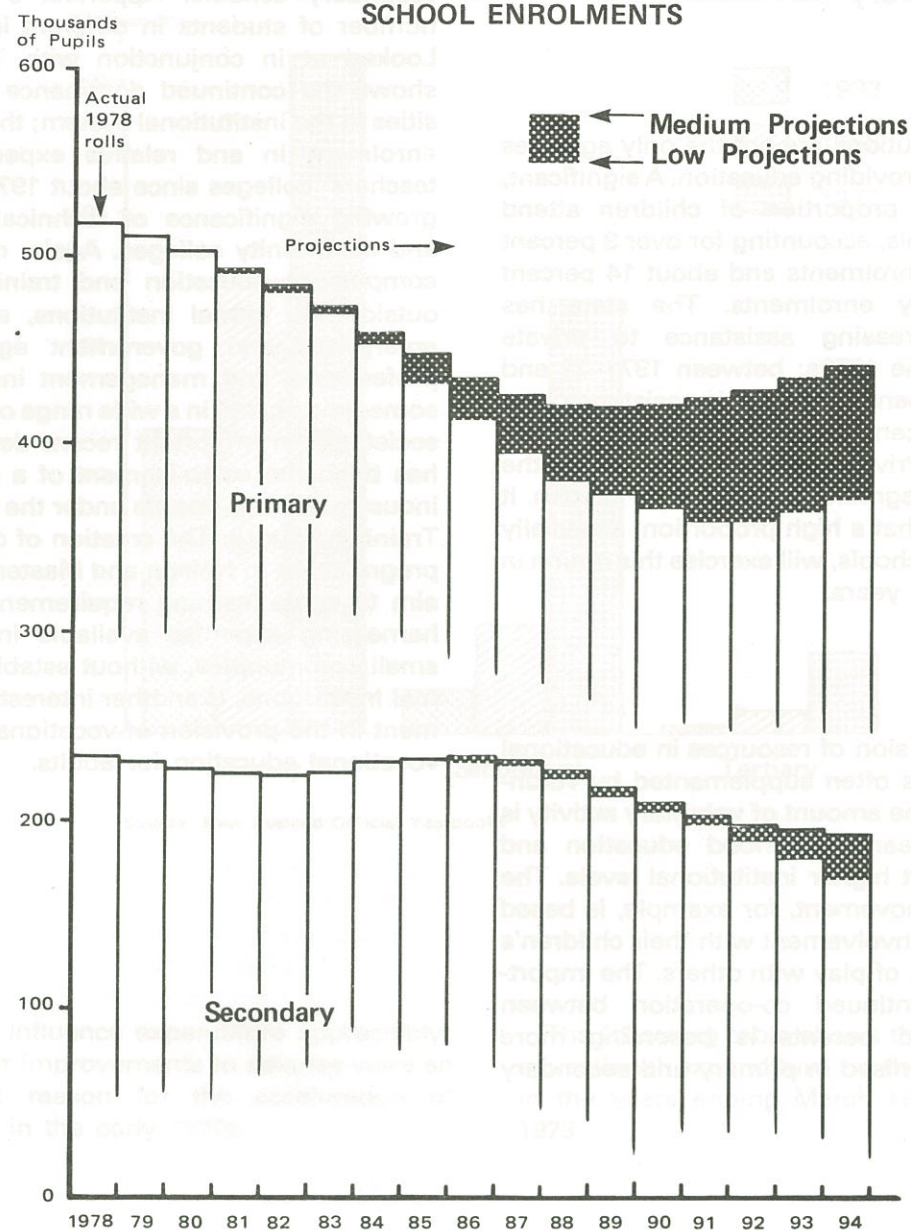
secondary schools. Appendix 5 gives the number of students in different institutions. Looked at in conjunction with Table 9, it shows the continued dominance of universities in the institutional system; the declining enrolment in and relative expenditure on teachers' colleges since about 1972; and the growing significance of technical institutes and community colleges. Again, much post-compulsory education and training occurs outside the formal institutions, e.g., within enterprises and government agencies, in professional and management institutes, in some unions, and in a wide range of voluntary societies. An important recent development has been the establishment of a number of industry training boards under the Vocational Training Council. The creation of community programmes in Nelson and Masterton, which aim to serve learning requirements through harnessing expertise available in relatively small communities, without establishing formal institutions, is another interesting experiment in the provision of vocational and non-vocational education for adults.

PROSPECTS

Demographic changes are already influencing the level and pattern of public expenditure on education and, given the continuation of current trends and policies, will do so increasingly during the next decade.

The Council is limited in giving a clear picture of probable developments in that the latest official projections of the rolls of primary and secondary schools have been outdated by recent trends in fertility and migration. Revision of the statistics may therefore mean that the following graphs are subject to review. For the purposes of revealing major issues which are likely to confront us in the next 10 years, however, the graphs are adequate. The demographic assumptions are discussed in Appendix 1.

Fig.11 PROJECTIONS OF PRIMARY AND SECONDARY SCHOOL ENROLMENTS



Source: Council Estimate

### Primary Schools

The most striking prospect is that of a dramatic fall in the rolls of primary schools. This has already begun, with numbers reduced from the peak of 525 323 in July 1975 to 518 060 in July 1978. The projections suggest a further decline in rolls of 11-12 percent between 1978 and 1984 and of 19-28 percent between 1978 and 1989. It is expected that the decline will be arrested and a moderate expansion resume about the end of the decade. The wide spread between the two projections for 1989 indicates the uncertainty of demographers about future trends in fertility and migration. This highlights the

need for frequent review of the projections and for caution in making drastic changes on shaky foundations. Nevertheless, in the absence of changes in present policies, the trends suggest a substantial fall in requirements for staff, classrooms, and equipment during the decade.

### Secondary Schools

The secondary school projections take a different shape. Rolls are now levelling, and a moderate decline of about 4 percent is projected between 1978 and 1982. Between 1982 and 1986 numbers are predicted to rise again to levels (232 000-235 000) close to

those prevailing in 1977 and 1978. Thereafter the projections show a sharp decline setting in and persisting well into the 1990s. By 1989 we can expect rolls 7-8 percent lower than those of 1978. On average therefore there is greater stability predicted for enrolments at the secondary school stage than at the primary during the coming decade. In the 1990s, however, unless present trends are altered, the secondary schools will confront problems similar to those of the primary schools in the 1980s.

### Universities

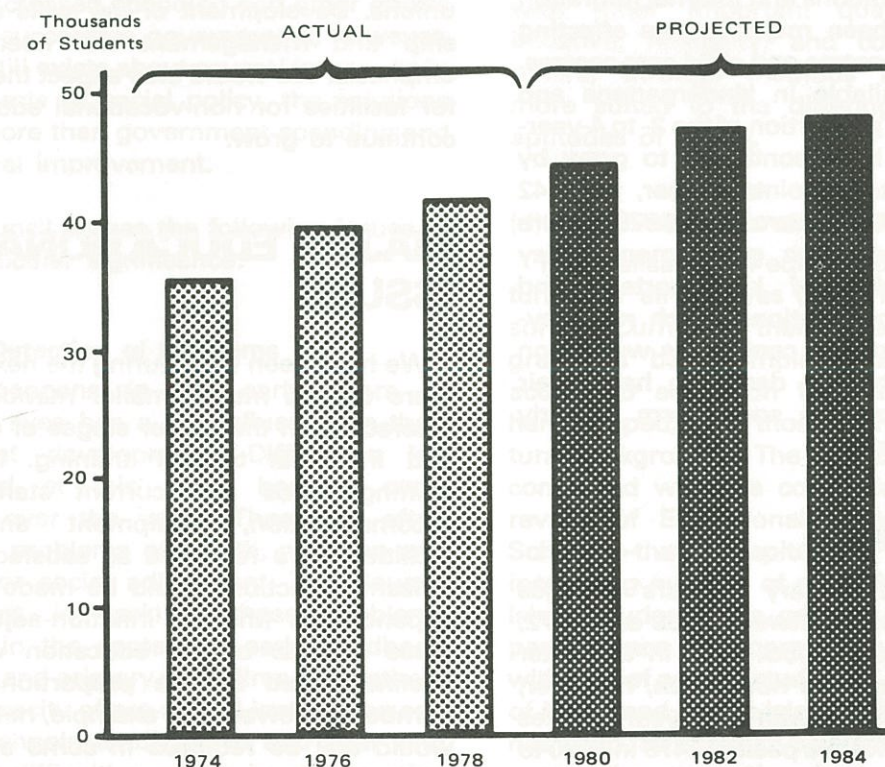
University rolls have continued to increase, with a particular boost in 1976 when the new tertiary bursary was introduced. First-year enrolments rose from 9 200 in 1974 to 10 800 in 1976, fell away slightly in the following 2 years, and are expected to increase again over the next 3 or 4 years. Influencing the projected upward trend is the marked increase which

has occurred in the last 3 or 4 years in forms 6 and 7 at secondary schools. Although a lower proportion of those qualified seem to be proceeding to university, the first-year intake is expected to continue to increase to a peak of about 12 000 in 1982, followed by a gradual decline. As a result, given present policies, total rolls are likely to continue to grow from about 41 800 in 1978 to about 48 000 in 1984. No official estimates of rolls have been made beyond that date.

### Early Childhood Education

Declining birth-rates have reduced the number of pre-school children. The number of 3- and 4-year-olds fell from 125 500 in 1975 to 113 100 in 1978. This fall is likely to continue, reaching a level of about 100 000 in 1984. If constant fertility rates are assumed from 1981, the numbers rise again to about 110 000 by 1989.

Fig.12 ENROLMENT AT UNIVERSITIES 1974 - 1984



Source: University Grants Committee

Current government policy aims to improve the availability of facilities for early childhood education. The number of places available in kindergartens has indeed been growing steadily. However, in the last 2 years, this has been offset by a fall in rolls at playcentres. The following table shows kindergarten and playcentre rolls over the period 1960-78.

TABLE 10

### KINDERGARTEN AND PLAYCENTRE ROLLS 1960-1978\*

	Kindergarten	Playcentre	Total	Increase (Percent Per Annum)
1960 ...	15 158	4 391	19 559	5.2†
1965 ...	18 829	8 950	27 779	7.3†
1970 ...	24 336	16 767	41 103	8.2†
1975 ...	32 357	22 400	54 757	5.9†
1976 ...	34 075	22 801	56 876	3.9
1977 ...	35 560	21 396	56 956	0.1
1978 ...	36 812	19 401	56 213	-1.3

\*Places available at 1 July.  
†Average of previous 5 years.

Source: Department of Education.

NOTE: In addition to the above, there were about 12 500 places available in other child care centres in 1978 (compared with about 8,000 in 1970 and 12,000 in 1975). These include private and community kindergartens, special kindergartens for the handicapped, day nurseries, factory nurseries, and shoppers' creches.

Economic conditions and internal migration have probably been major factors affecting the rolls of playcentres and child care centres. The places available in kindergartens and playcentres as a proportion of the 3- to 4-year-old population have continued to grow by about 2 percentage points a year, from 42 percent in 1974 to 50 percent in 1978. Future trends will depend on government policy towards provision of kindergartens and assistance to organisations which run playcentres and child care centres, as well as on parental capacity and desire to have their children participate in some form of early childhood education.

#### Teachers' Colleges

Enrolments at primary teachers' colleges more than doubled between 1960 and 1972, reaching a peak of about 6450 in the latter year. Enrolments have now fallen, however, to less than 5000, with first-year intakes having declined from a peak of 2479 in 1970 to 1532 in 1977. In the case of secondary teachers' colleges, enrolments have been less

drastically affected. Nevertheless, after almost trebling from 550 to 1645 between 1960 and 1972, they had declined to 1440 by 1977. Future trends will be influenced by the falling school rolls previously discussed, by government policies on staffing ratios, by the availability and use of previously trained teachers from within New Zealand and overseas, and other factors which are considered later.

#### Continuing Education

Demographic, economic and cultural influences seem likely to sustain an expanding demand for other forms of tertiary and continuing education. Although the total population will grow only slowly in the next decade, the labour force is likely to continue to expand by between 1.5 percent and 2 percent per annum. A strategy to put New Zealand on a path of sustained economic, social and cultural development must include a major effort to develop and upgrade the varied skills required and compensate for those lost through the period of net emigration. Pressures of technological changes, notably in computers and communications, together with the need to develop more internationally competitive activities which will earn and save overseas exchange and cater for the domestic requirements of a growing and diversifying economy, will require an expansion of training and continuing education in government, enterprises and unions. Development of the skills of leadership and management will need special emphasis. We would also expect the demand for facilities for non-vocational education to continue to grow.

### MAJOR EDUCATIONAL ISSUES

We have seen that, during the next decade, there will be much smaller numbers to be catered for in the earlier stages of education and in initial teacher training. If current staffing ratios and current standards of accommodation, equipment and other facilities were regarded as satisfactory, significant reductions could be made in "real" expenditures (that is, inflation-adjusted) on these aspects of the education vote. The decline would not be proportional to the numbers involved. For example, new schools would still be required in some areas, and past commitments to existing teaching staff and to policies like integration of private

schools would remain. Nevertheless, current standards could be sustained with lower real expenditures. Given existing standards of provision in secondary education, real expenditures in that area could also level off. In the field of tertiary and continuing education, however, there will be continuing pressures for significant real increases in expenditure.

In judging what should be done in education over the next decade, the present level and pattern of expenditure must be critically assessed. There may be some areas where too much is being spent relative to the benefits derived; there may be other areas where additional expenditures would produce economic, social, or cultural benefits well worth the higher costs.

Education has been subject to much critical assessment in recent years. The Planning Council accepts as still valid the general judgment of a Working Party of the Educational Development Conference (EDC) in 1974 that we have "a good, middle-of-the-road, wholesome system which, while it may not have the highlights of some overseas developments, at least does not show the extremes of inadequate provision". At the same time, the EDC and subsequent inquiries have revealed several problem areas. There has been considerable agreement among the major political parties with most of the EDC conclusions, and about the general directions which educational improvement should take. Despite increased spending and other efforts made by successive governments, however, concern still exists about several issues. As in other aspects of social policy, the solutions involve more than government spending and institutional improvement.

The Council judges the following issues to be of particular significance:

#### (a) Early Detection of Problems

What happens in the early years of children's lives has a big influence on their subsequent development. Difficulties left unattended at this stage become compounded over the years. These are often related to problems of health, nutrition and personal or social adjustment. The Council sees merit in tackling these problems together, in the context of early childhood education and primary schooling. Strengthening the capacity of pre-school institutions and primary schools to diagnose and deal with children's difficulties early, in co-operation with parents, health and social workers and

others, should have high priority. This should reduce problems which will be much more difficult and expensive to cope with later.

#### (b) Co-ordination of Education Efforts

Education is the responsibility of parents and of community agencies as well as of schools and other educational institutions. The Council believes there needs to be wider acceptance of this fact. To overcome difficulties of the kind just mentioned requires co-operative efforts by schools, parents, the media, and other sections of the community. The resources available for learning can also be better utilised if there is more sharing of educational and community facilities, and of the skills of full-time and voluntary assistants, including interested and capable parents.

#### (c) Flexibility of Curricula

Many pupils are "turned off" by present school programmes, especially in the lower forms of secondary schools. Too many seem to be emerging from school with a sense of failure and antipathy to further education. The Council believes this problem could be alleviated by devising curricula which not only extend those of academic ability, but also cater more adequately for those whose main talents lie in other directions. This would not mean a lessening of emphasis on the development of the basic skills of thinking, reading, writing and calculation. Rather it would mean developing these skills along with other important qualities such as initiative, reliability, and consideration for others, through methods and disciplines more suited to the differing interests and aptitudes of pupils.

#### (d) Accommodation of Minority Groups

The realisation of equal educational opportunity for all requires differing treatment for some. Currently there are several programmes being implemented to improve access to education for rural people, the handicapped, and those from minority cultural backgrounds. The Council is particularly concerned with the conclusion of the 1978 review of Educational Standards in State Schools—that "despite the success of an increasing number of able Maori and Pacific Island students, the general picture of their performance compares very unfavourably with that of pakeha students". The percentage of Maori and Pacific Island children at schools has risen from 9 to 13.5 percent in the past 30 years; the proportion is one-third in metropolitan Auckland. There is much that

remains to be done to foster understanding of, and respect for, cultural differences, and to devise programmes which will allow minorities to develop a sense of identity, building on their own cultures, while equipping themselves to work and live in a mainly English-speaking community.

#### (e) Tertiary and Continuing Education

For reasons given earlier, the Council places high priority on the development of a broadly-based, flexible and open system of tertiary and continuing education. Within this system, the pre-service training of teachers will assume less importance than in the past. Pressures for university expansion may also lessen. While unemployment of graduates has not so far been a serious problem, surpluses could occur in some areas if numbers continued to grow at recent rates. We would also expect the technical institutes and community colleges to continue to assume more importance in developing and upgrading the skills of management, technologists, and the social and cultural workers needed in the next decade.

They will also face challenging demands to help to develop a more dynamic system for training and retraining operatives, tradesmen, technicians and others not catered for by universities. Such a system should offer a second chance to those who, for one reason or another, did not acquire the basic skills at school. Its development will require more than the strengthening of technical institutes, community colleges and the community programmes of schools. On-the-job training, educational services from the private sector, and more informal educational programmes will have to be expanded and improved, and linked more adequately to the existing facilities available through educational institutions for both face-to-face and extramural education.

#### (f) Financial Assistance to Students

The prospective developments in tertiary and continuing education suggest a need for reappraisal of the present programmes of assistance to students. In particular the question of how far the costs of different forms of continuing education should be borne by taxpayers, by students and/or their parents, by employers, or from other services needs to be considered.

## POLICIES

In the rest of this chapter the Council discusses the policies it considers desirable.

### 1. Early Childhood Education

***The Council recommends that access to early childhood education be improved.***

The Council believes that the initiatives for new facilities should come primarily from the communities concerned. In communities which have a high proportion of people with young families on low incomes, and/or with minority cultural backgrounds, however, the Government should assume more financial and organisational responsibility than usual. The capital costs of expansion could be contained in some areas by imaginative use of redundant facilities at primary schools and by the sharing of facilities with local bodies or other organisations.

We suggest the opening of about 15 new kindergartens per annum (compared with 20 on average in the last 3 years). With the continuation of existing intakes to kindergarten training and some increase in the level of support to play centres, this should bring places in these facilities up to 65 percent of the 3- to 4-year-old population by 1984, and 70-75 percent by 1989, compared with 50 percent in 1978.

The blend of family, community, and state involvement with teachers and supervisors, which characterises this sector of education, should be used as an important base for early diagnosis and treatment of children's difficulties, in association with health and social workers and others. The desirable mix of facilities as between kindergarten, play centre, child care and other means of provision should be decided for each area by close co-operation among parents, the agencies providing services, and the appropriate government departments.

The higher proportion of mothers seeking employment will mean an increased demand for day-care facilities.

***The policy of providing selected assistance to child care centres in areas of special need should be continued.***

***The Council believes it important that day-care centres provide good educational programmes as well as custodial supervision. There is a case for the Department of Education to assume responsibility for overseeing this development with other aspects of early childhood education.***

In doing so, it should avoid too much standardisation and red tape. The emphasis should be on advice and help rather than control. The need for flexibility must be recognised if the programmes are to meet the different requirements of different groups, and if effective use is to be made of people who are not professionally qualified teachers or supervisors. Overall, we would expect that real capital expenditures could be less than they have been recently. Current expenditures may rise by up to 2 percent per annum in real terms. However, this is a small part of the total votes for education and social welfare and the increase seems well justified for its contribution to reducing future difficulties in health, education, and social relationships. In any event, a joint approach to early childhood development by the Departments of Education, Social Welfare, and Health is required in order that children's difficulties may be diagnosed and dealt with effectively.

### 2. Primary and Intermediate Schools

***The need for early detection and treatment of learning difficulties also prompts the Council to recommend some improvement in staffing of primary schools. As a corollary, we endorse the recommendations of several recent reports, that provision for the retraining and continuing education of teachers be expanded. The Council considers that an across-the-board reduction in class sizes is not the best way to deal with the major problems. The emphasis should be on the recruitment, training and retraining of staff to deal with special needs, e.g., of children from differing cultures, slow learners, gifted children, and children with specific difficulties with reading or other learning problems.***

Schools with a disproportionate share of such special problems should be strengthened and extra staff provided to allow for extra tuition and a closer relationship with parents and others in the community. The

people required include not only teachers, but health and social workers and part-time and voluntary assistants outside the profession.

Figure 13 (over) shows the decline in primary and intermediate teacher requirements if existing ratios were sustained. Even with the higher enrolment projection, if 1000 new positions were created during the decade for the purposes mentioned, about 2500 fewer teachers would be required in 1988 than in 1978. Requirements for capital expenditure will also become much lower, being concentrated largely on providing for the expansion which will continue in some areas while rolls generally are falling, on the modification or replacement of unsatisfactory buildings, and on improved equipment.

The Council recognises there will be difficult decisions to make about potentially redundant facilities, especially in rural areas struggling to retain farm workers and service industries. The education authorities will need to reconcile differing viewpoints on what schools might be closed or reduced in size; the community will need to be involved in making such decisions and in seeking constructive alternative uses of the facilities for other educational or community purposes.

### 3. Secondary Schools

As with primary schools, the Council does not advocate a general increase in secondary school staffing ratios. We are, however, aware of the difficulties currently facing the schools.

***Accordingly, we recommend further selective improvement to strengthen the schools' capacity to develop curricula which will interest and extend a higher proportion of pupils, to improve programmes of retraining and continuing education, and to strengthen links with the community. The extra staff will include support and ancillary personnel. The Council attaches particular importance to a change in the balance of staffing in order to provide more suitable programmes for those whose main talents and interests lie in areas other than the academic.***

Proficiency in communication and calculation, for example, could be advanced by relating these skills to courses with a greater

technical or artistic content. In order to ease the transition from school to work, there should be more opportunities for work experience and part-time education for some pupils. The sense of failure and disillusionment with education felt by many school leavers is accentuated by the very high failure rates built in to some of the present School Certificate examinations.

*We recommend a thorough review to find a suitable replacement for the present School Certificate system, as part of a more general reappraisal of techniques of assessment and reporting on students' performances at school.*

#### 4. Teacher Training

##### (a) Primary Colleges

As mentioned earlier, primary teachers' colleges have already felt the effects of lower primary school rolls. If the current first-year intakes of 1600 per annum were sustained, the number of teacher trainees would decline to less than 4000, as compared with 6450 at the peak in 1972 and 5000 in 1977. The question is whether the intake of 1600 is still too high. The answer depends in part on what the Government decides to do about the staffing of primary schools. It depends also on how far the authorities wish to encourage trained teachers to return to teaching after a break, e.g., to raise a family. Between 1972 and 1976, an average of about 1200 teachers were recruited in this way. The Council would expect the opportunities for inducing married women to return to teaching to improve during the decade. The retraining of such

TABLE 11

#### ESTIMATED DEMAND FOR TEACHERS IN STATE SCHOOLS

	Primary	Secondary
1978 (actual)...	19 223*	12 860*
1981 ...	19 600-19 700*	13 850-13 900*
1983 ...	18 800-18 900	13 850-13 900
1985 ...	17 400-17 900	14 200-14 400
1987 ...	15 900-17 100	14 100-14 300
1989 ...	14 900-16 900	13 200-13 400

\*Rolls between 1978 and 1981 are increased by integration of, say, 80 percent of private schools into the State system. This increases the demand for teachers. It is assumed that a large part of this extra demand will be met by the retention of teachers in private schools, perhaps 1400 at the primary level and 1200 at secondary level.

To get a truer impression of the change in overall demand for teachers, the 1978 figures should be increased by approximately this number of teachers serving in private schools.

Source: Council estimate.

people would be less expensive than training new teachers, but consideration needs to be given to what is an appropriate balance between these older and more experienced people and newly-trained, younger teachers.

*Even when provision is made for the staffing improvements recommended by the Council, the projections in the graph opposite lead the Council to the judgment that teachers' college intakes of primary trainees should be reduced to at most 1400 by 1981.*

The effects on the colleges of such a reduction would be offset to some extent if they were given a more active role in the retraining and continuing education of teachers, or if the skills of the college staffs could be utilised for training other personnel, as in the case of some librarians. Nevertheless, since much of the continuing education function must be shared with other agencies and conducted in centres away from the colleges, the Council must question whether the continued operation of all the existing colleges is justified. The most positive use of some colleges would be to seek a sharing of their staff and facilities with other institutions, notably technical institutes which are looking towards expanding their operations.

##### (b) Secondary Colleges

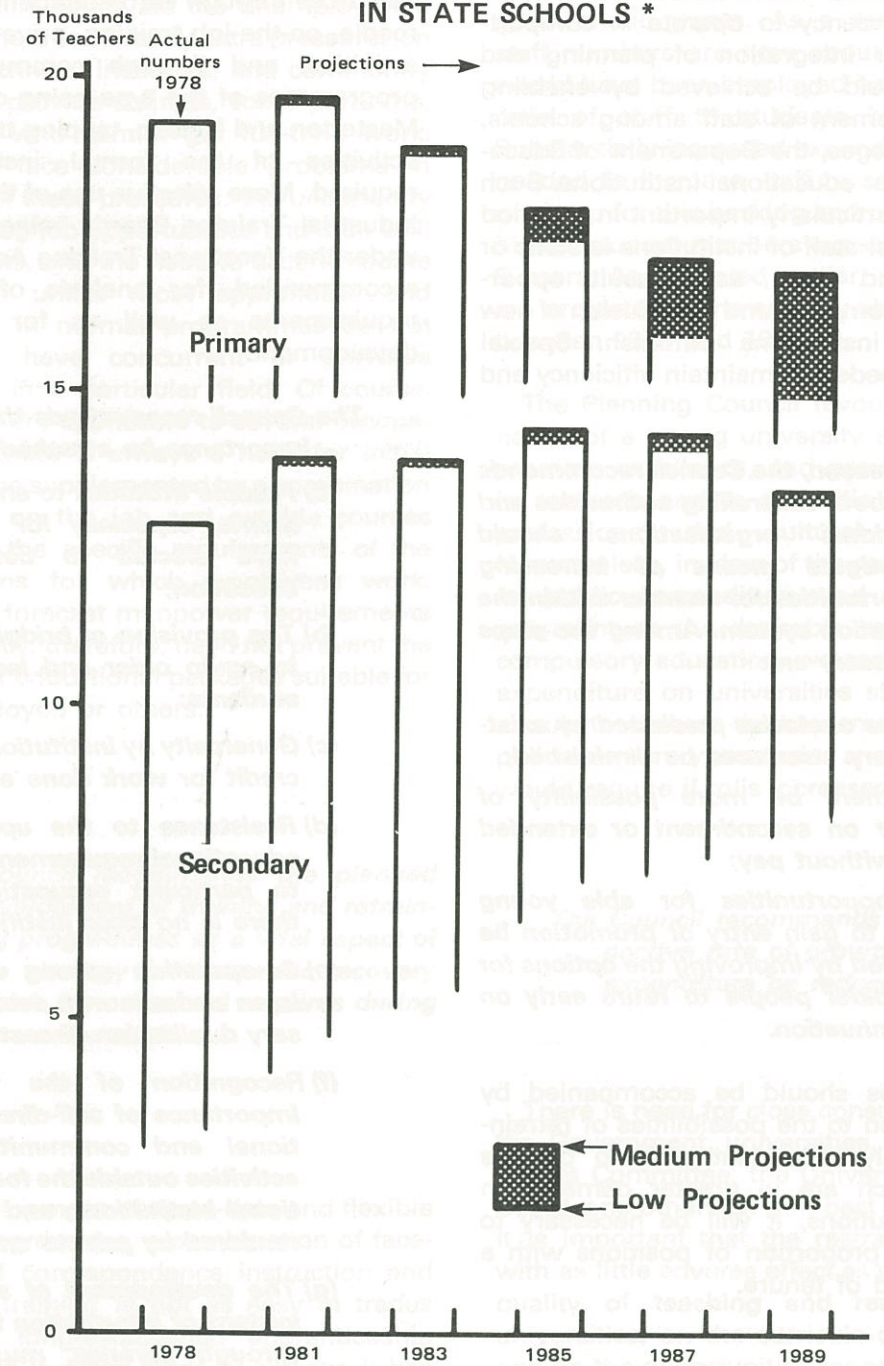
Given present backlogs and increased demands for continuing education, the secondary colleges seem likely to find demand for their services sustained, even if some part of their present functions is assumed by primary teacher colleges or universities.

##### (c) General

*The Council considers it important that all teaching services should include a growing proportion of members with experience outside the school system or from Maori and Pacific Island backgrounds.*

The Council welcomes recent attempts to broaden the teaching base in this way in the selection of new entrants to teachers' colleges. To capture and retain the interest of those with special qualifications and experience, there must be flexibility in the length and content of the initial training programmes.

Fig.13 ESTIMATED DEMAND FOR TEACHERS IN STATE SCHOOLS \*



\*See note to Table 11

Source: Council, Estimate

## 5. Mobility of Staff

Most reports on educational issues have noted the need for staff in different educational institutions with related functions to avoid the tendency to operate in compartments. Better integration of planning and operation could be achieved by enabling greater movement of staff among schools, teachers' colleges, the Department of Education, and other educational institutions. Such mobility is particularly important in a period when the total staff of institutions is static or declining; and when, as a result, opportunities for promotion and the infusion of new blood into institutions diminish. Special efforts are needed to maintain efficiency and vitality.

*For this reason, the Council recommends that both controlling authorities and individual organisations should investigate means of increasing opportunities for transfer within the education system. Among the steps necessary are:*

- *That the obstacles presented by existing salary structures be diminished;*
- *That there be more possibility of transfer on secondment or extended leave without pay;*
- *That opportunities for able young people to gain entry or promotion be enhanced by improving the options for some older people to retire early on superannuation.*

These steps should be accompanied by more attention to the possibilities of retraining potentially redundant staff to provide services which are in greater demand. In several institutions, it will be necessary to increase the proportion of positions with a limited period of tenure.

## 6. An Open System of Tertiary and Continuing Education

The Council recommends that high priority be given to the expansion of a diversified system of tertiary and continuing education which will assist people to continue learning and improve their skills throughout their lives. The expansion should not be confined to technical institutes, community colleges, universities, secondary schools and other institutions preparing people for formal qualifica-

tions in the major centres. The requirements of those unable or unwilling to attend these institutions can be met by the development of courses and availability of other learning resources through correspondence and other media, on-the-job training, private enterprise activities, and through community action programmes of the type being developed in Masterton and Nelson, tapping the extension activities of the formal institutions as required. More effective use of the system of Industrial Training Boards being established under the Vocational Training Act is strongly recommended, for analysis of manpower requirements as well as for educational development.

*The Council recommends that particular importance be attached to:*

- (a) *Flexible attitudes to entry requirements, especially for those who have elected to defer further education;*
- (b) *The provision of bridging courses to equip older and less qualified students;*
- (c) *Generosity by institutions in giving credit for work done elsewhere;*
- (d) *Resistance to the upgrading of educational requirements for entry to particular occupations where there is no clear justification;*
- (e) *Co-operation among institutions in an endeavour to avoid unnecessary duplication of costly courses;*
- (f) *Recognition of the value and importance of self-directed, vocational and community learning activities outside the formal educational institutions, and of services rendered by private enterprises;*
- (g) *The development of an effective system of information for learners through libraries, museums, art galleries and other public facilities, and through the media, utilising recent developments in computer and communications technology where benefits justify the costs;*
- (h) *Improved guidance for learners on the various facilities available.*

## 7. Technical and Continuing Education

As indicated, the Council expects the demands on technical institutes and com-

munity colleges to increase in the next decade. These demands will be accentuated if New Zealand continues to experience difficulty in sustaining full employment. Shortages of skills aggravate the unemployment problem. There are already extra pressures on schools, technical institutes, and community colleges to provide courses, some part-time, for people who cannot get full-time work. Institutions face considerable problems in dealing with these pressures: the uncertainty of forecasting job opportunities and their skill requirements, and the need to accommodate pupils who unlike most apprentices and technicians in normal programmes do not necessarily have concurrent or previous experience in a particular field. Of course, many skills are applicable to several occupations and there is always a need for initial training to be supplemented by a combination of training on the job and outside courses tailored to the specific requirements of the organisations for which employees work. Inability to forecast manpower requirements with accuracy, therefore, need not prevent the provision of educational packages suitable for the unemployed or others.

*The Council recommends the planned development of training and retraining programmes as a vital aspect of the strategy for economic recovery which New Zealand requires during the next decade.*

The development of up-to-date and flexible training programmes, a combination of face-to-face and correspondence instruction and on-the-job training is not as easy in trades subject to long-established apprenticeship rules as it is in other areas of activity. It has been widely recognised for some time that apprenticeship requirements should be made more flexible, but changes have been slow because of institutional resistance. The Council recommends a more determined effort by unions and employers, working through the machinery established by the Vocational Training Council, to devise more flexible training and retraining systems. We also urge the Vocational Training Council to intensify efforts to upgrade education in leadership and management skills, and to improve the effectiveness with which resources available for such education are used.

## 8. Universities

During the last quinquennium, student numbers and non-salary costs of universities have risen faster than was provided for in the government grants. As a result, academic staff numbers are now about 550 less than would have been employed had the intended ratio of staff to students been achieved. Substantially increased expenditure would be needed to increase staff to an extent which made up for this backlog and provided for the higher student numbers expected in the next 5 years. As indicated earlier, university rolls are projected to increase by about 15 percent between 1978 and 1984.

The Planning Council favours the maintenance of a strong university system to help promote excellence, and provide leadership in research and in scientific, technological, professional and cultural development. Nevertheless, in view of the need for restraint in public expenditure and the Council's judgment on the desirable balance of post-compulsory education, we cannot agree that expenditure on universities should increase as substantially as the implementation of past policies on entry, bursaries and staffing ratios would require if rolls increased as projected.

*The Council recommends that the prospective rate of growth in university expenditure be reduced.*

There is need for close consultation among the Government, universities, the University Grants Committee, the Universities Entrance Board, and others on how best to achieve this. It is important that the restraint be applied with as little adverse effect as possible on the quality of teaching and research in the universities, on the curricula of the schools, and on the opportunities for able and serious students of slender means to complete university courses. Any changes should be phased in with, and would be facilitated by, the expansion and improvement of alternative forms of post-compulsory education.

There are two main questions to be considered. The first is the possibility of sustaining the quality of teaching and research in universities with the present staffing ratios. This would require the universities to intensify their efforts to reduce the range of courses offered in particular departments, to avoid wasteful duplication of



courses, to retrain staff and gradually dis-establish posts in departments with unusually favourable staffing positions and so on. The Council considers it particularly important that the capacity of universities to contribute to the national research and development effort be sustained and improved. It would not be inconsistent to accompany the restraint suggested here with an increase in research grants and fellowships, as part of a policy of further developing both "untied" and contract research in universities. The Council also values the contribution which universities make to continuing education, both vocational and cultural. We believe that this could be developed further, even with restricted grants. We recommend that the universities examine more vigorously the possibilities of doing this, largely on a fee-for-service basis.

**The second question is how best to curb the growth of university rolls. We recommend consideration of four approaches, in the following order of priority:**

**(a) While not restricting entry generally, the universities could reduce access to particular courses. These could include courses where satisfactory alternatives were available, or being developed, in technical institutes and community colleges. Special attention should be paid to courses which are heavily subsidised and where graduates seem likely to encounter difficulties in finding employment. In the chapter on health, we have given reasons for reducing the numbers admitted to medical schools.**

**(b) Some universities may have to restrict the total numbers admitted. Those not able to gain entrance to that university in a particular year could seek entrance to another university not so pressed, undertake studies on an extramural basis where these are available, take courses at a technical institute or elsewhere, or defer entry.**

**(c) Present criteria for university entrance could be made somewhat more demanding. We would not favour making a pass in the university bursary and scholarship examinations the sole criterion for entrance, however, and recommend that any more stringent system should still**

**leave room for very able pupils who have not gone on to the seventh form, mature students with good prospects of success, and candidates eligible for cross-credit from other institutions.**

**(d) There should be some increase in fees charged to those not eligible for full assistance, and a review of the basis upon which assistance is accorded to students as discussed in the following section. We emphasise the importance of safeguarding the interests of those with high ability.**

## 9. Assistance to Students

**Reconsideration of the number and value of university bursaries, scholarships and fees should be part of a more general review of charges and of financial assistance to students in all branches of tertiary and continuing education. There are some obvious anomalies in the present system and the Council recommends that the allowances paid to those entering teachers' training colleges in future should be brought into line with those accorded to other students receiving the standard tertiary bursary.**

More generally, the Council recommends that there be a considered assessment of what contribution it is reasonable to ask taxpayers, many of them on relatively low incomes, to make towards the cost of tertiary and continuing education from which students and their employers, as well as society generally, will benefit.

In 1974, the Advisory Council on Educational Planning (ACEP) recommended a review of the financial assistance offered to learners after completion of compulsory schooling. ACEP envisaged a scheme of educational entitlement which would provide all New Zealanders with recurrent access to education in forms and at times best suited to their needs. It suggested that the review should encompass the following:

- The needs for recurrent education, especially on a full-time basis;
- The principles upon which fees should be established;

- The categories of learners entitled to tuition on a free or subsidised basis;
- Any changes necessary to the bursaries and other assistance given to learners directly and indirectly;
- The possibility of offsetting loss of income or other costs involved when people wish to participate full time in recurrent education.

Participation by representatives of the main organisations of trade unions and employers in devising such a scheme would be essential as the question of paid educational leave cannot be discussed in isolation from policies concerning paid annual holidays, eligibility for retirement, and other conditions of employment.

The Council understands that a committee is examining questions of financial assistance to students, but that it has so far concentrated on particular issues of short-term importance. Even if Government expenditure on assistance must grow slowly in the next few years, it is important that the committee consider a new approach which will be brought to fruition in the longer term.

**In addition to the matters mentioned by ACEP, the Council recommends that particular attention be given to such questions as:**

- **Within the financial resources available, what criteria should govern the balance between assistance to university and teachers' college students and assistance to other learners?**
- **For how long should assistance be available to particular individuals, e.g., should entitlements to grants be limited to, say, 3 years?**
- **Should some of the assistance be on a loan or suspensory loan basis, rather than purely by grants?**
- **On what basis should supplementary assistance above the standard entitlements be extended to able students with special needs?**

## 10. Organisation and Evaluation

Consistent with the philosophy of previous chapters, the Council welcomes the trend towards less detailed control by central government over the activities of individual educational institutions. If, as we would

expect, there develops a closer partnership between central government and local authorities in planning for the economic, social and cultural development of regions of the country, it would be logical for more district or regional planning of educational developments to take place as one element of the process. These developments would involve greater delegation by government of financial as well as administrative responsibility. Such delegation would, of course, need to be subject to overall financial control and to safeguards against wasteful duplication of expensive facilities and staffing. We envisage the Government continuing to set guidelines and minimum standards designed to ensure equity and efficiency. With less detailed responsibilities for control, the Department of Education would be able to concentrate on its essential functions of providing educational leadership and overseeing and helping co-ordinate the system. It should also foster research by its own officers, the Council for Educational Research, and other scholars in educational institutions. The overall aim of this research should be to provide a firm basis for the evaluation of educational programmes to decide which should be promoted and which should be modified or discontinued. Education is a continuing and changing process and frequent review is essential.

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## SUMMING-UP

Over the next decade, with a declining number of young people to be educated, it should be possible to continue to make improvements in the quality of educational services, with educational expenditure by the state rising less rapidly than GDP and government expenditure as a whole.

Improvements in staffing and facilities should be made on a selective basis. High priority should be given to strengthening the capacity of pre-school institutions and primary schools to diagnose and deal with children's difficulties early, in co-operation with parents and health and social workers. So, too, should emphasis be given to strengthening the capacity of secondary schools to provide curricula which not only extend those of academic ability, but also cater more adequately for those whose abilities lie in other directions, many of whom seem to be emerging from school with a sense of failure and antipathy to further education. Better use will be made of available learning resources, personal and material, if there is more sharing of educational and community facilities, and if the skills of full-time professionals are supplemented by those of ancillary part-time and voluntary assistants. There should be more recognition that schooling is only part of education and that the community itself provides a rich source of learning experience. Effective solutions to the difficulties which we have discussed will not be found by schools alone. Parents, the media, and community agencies must share the responsibility, and develop a more constructive partnership with the schools. This is particularly important for children from minority groups trying to build competence and a sense of identity on the basis of their particular cultural backgrounds.

To put New Zealand on a path of sustained economic, social, and cultural development will require a major effort to upgrade the skills of management and of a labour force which

will continue to grow quite rapidly. Necessary changes in the structure of the economy will add to the pressures already coming from technological development to place more emphasis than in the past on retraining and continuing education, both vocational and non-vocational. High priority should therefore be given to the development of a more broadly-based, flexible, and open system of continuing education, including better information and guidance for potential learners and greater efforts to identify and meet their needs.

In post-compulsory education, there will be less need for expenditure on the pre-service training of teachers, but more on developing the capacity of technical institutes, community colleges, and other public services of knowledge and information, to support the educational efforts of individuals and enterprises.

A strong university system is needed for the contribution which it can make to the country's economic, social, and cultural development. This contribution includes not only vocational and general education for many of our most gifted people, but also the advancement of knowledge through research, publication, and extension work. Universities should also have a special role in guarding important elements of our heritage, especially the disinterested pursuit of truth and the free exchange of informed opinion. However, as with other forms of public expenditure, there must be restraint on the prospective growth of grants to universities. This will require a reappraisal by the universities of the effectiveness with which they are using the funds made available to them and a more selective approach to entrance to the university.

There should also be a general review of how the costs of tertiary and continuing education should be shared among the state, students, employers, and other sources of support.

## PART III (C)

# LAW AND ORDER

## INTRODUCTION

The social issues facing New Zealand will not be solved solely by tackling the delivery of services for health and education. Neither can they be adequately covered if the discussion is confined to the expenditure-related issues. It has been suggested that a long-term social planning strategy, beyond the biennial aspects and budgetary considerations, needs to be developed in order to coordinate the provision of services and to ensure that the Government's policies are taken into account.

The present system of law and order is based on a number of assumptions which have become worn and need to be replaced. It is the Government's policy to ensure that the law is made available to all New Zealanders and that the law is applied in a way which is fair and just. The Government is committed to the principle of the rule of law and to the principle of the separation of powers. The Government is also committed to the principle of the protection of the individual's rights and freedoms. The Government is committed to the principle of the protection of the community's interests and to the principle of the protection of the environment. The Government is committed to the principle of the protection of the consumer's interests and to the principle of the protection of the worker's interests. The Government is committed to the principle of the protection of the elderly and the disabled and to the principle of the protection of the young and the vulnerable. The Government is committed to the principle of the protection of the cultural and linguistic minorities and to the principle of the protection of the indigenous Maori people. The Government is committed to the principle of the protection of the environment and to the principle of the protection of the natural resources. The Government is committed to the principle of the protection of the public health and safety and to the principle of the protection of the public order and the public morals. The Government is committed to the principle of the protection of the public interest and to the principle of the protection of the public good. The Government is committed to the principle of the protection of the public safety and to the principle of the protection of the public security. The Government is committed to the principle of the protection of the public peace and to the principle of the protection of the public tranquility. The Government is committed to the principle of the protection of the public harmony and to the principle of the protection of the public concord. The Government is committed to the principle of the protection of the public unity and to the principle of the protection of the public solidarity. The Government is committed to the principle of the protection of the public justice and to the principle of the protection of the public equity. The Government is committed to the principle of the protection of the public righteousness and to the principle of the protection of the public integrity. The Government is committed to the principle of the protection of the public virtue and to the principle of the protection of the public probity. The Government is committed to the principle of the protection of the public honesty and to the principle of the protection of the public sincerity. The Government is committed to the principle of the protection of the public truthfulness and to the principle of the protection of the public candour. The Government is committed to the principle of the protection of the public openness and to the principle of the protection of the public transparency. The Government is committed to the principle of the protection of the public accountability and to the principle of the protection of the public responsibility. The Government is committed to the principle of the protection of the public answerability and to the principle of the protection of the public liability. The Government is committed to the principle of the protection of the public justice and to the principle of the protection of the public equity. The Government is committed to the principle of the protection of the public righteousness and to the principle of the protection of the public integrity. The Government is committed to the principle of the protection of the public virtue and to the principle of the protection of the public probity. The Government is committed to the principle of the protection of the public honesty and to the principle of the protection of the public sincerity. The Government is committed to the principle of the protection of the public truthfulness and to the principle of the protection of the public candour. The Government is committed to the principle of the protection of the public openness and to the principle of the protection of the public transparency. The Government is committed to the principle of the protection of the public accountability and to the principle of the protection of the public responsibility. The Government is committed to the principle of the protection of the public answerability and to the principle of the protection of the public liability.

## TRENDS AND PROSPECTS

The law and order system of New Zealand is based on a number of assumptions which have become worn and need to be replaced. It is the Government's policy to ensure that the law is made available to all New Zealanders and that the law is applied in a way which is fair and just. The Government is committed to the principle of the rule of law and to the principle of the separation of powers. The Government is also committed to the principle of the protection of the individual's rights and freedoms. The Government is committed to the principle of the protection of the community's interests and to the principle of the protection of the environment. The Government is committed to the principle of the protection of the consumer's interests and to the principle of the protection of the worker's interests. The Government is committed to the principle of the protection of the elderly and the disabled and to the principle of the protection of the young and the vulnerable. The Government is committed to the principle of the protection of the cultural and linguistic minorities and to the principle of the protection of the indigenous Maori people. The Government is committed to the principle of the protection of the environment and to the principle of the protection of the natural resources. The Government is committed to the principle of the protection of the public health and safety and to the principle of the protection of the public order and the public morals. The Government is committed to the principle of the protection of the public interest and to the principle of the protection of the public good. The Government is committed to the principle of the protection of the public safety and to the principle of the protection of the public security. The Government is committed to the principle of the protection of the public peace and to the principle of the protection of the public tranquility. The Government is committed to the principle of the protection of the public harmony and to the principle of the protection of the public concord. The Government is committed to the principle of the protection of the public unity and to the principle of the protection of the public solidarity. The Government is committed to the principle of the protection of the public justice and to the principle of the protection of the public equity. The Government is committed to the principle of the protection of the public righteousness and to the principle of the protection of the public integrity. The Government is committed to the principle of the protection of the public virtue and to the principle of the protection of the public probity. The Government is committed to the principle of the protection of the public honesty and to the principle of the protection of the public sincerity. The Government is committed to the principle of the protection of the public truthfulness and to the principle of the protection of the public candour. The Government is committed to the principle of the protection of the public openness and to the principle of the protection of the public transparency. The Government is committed to the principle of the protection of the public accountability and to the principle of the protection of the public responsibility. The Government is committed to the principle of the protection of the public answerability and to the principle of the protection of the public liability.

- The principal components of our law and order system in New Zealand are:
- (i) the legislature (the law-making agency);
  - (ii) the "interpretive" agencies (the judiciary and the legal profession);
  - (iii) the "enforcement" agencies (the police, courts, and penal systems).

The government expenditure on law and order as a percentage both of GDP and of total public expenditure have remained fairly constant until the early seventies, when they began to climb, with a particularly large increase in the year to March 1979.

(See Figure 4, Part I)

## SUMMING-UP

Over the next decade, with a declining number of young people to be educated, it would be possible to continue to meet improvements in the quality of educational services, with educational expenditure by the state rising less rapidly than GDP and government expenditure as a whole.

Improvements in staffing and teacher pay should be made on a selective basis, with priority given to those schools with the greatest capacity of providing a high quality education.

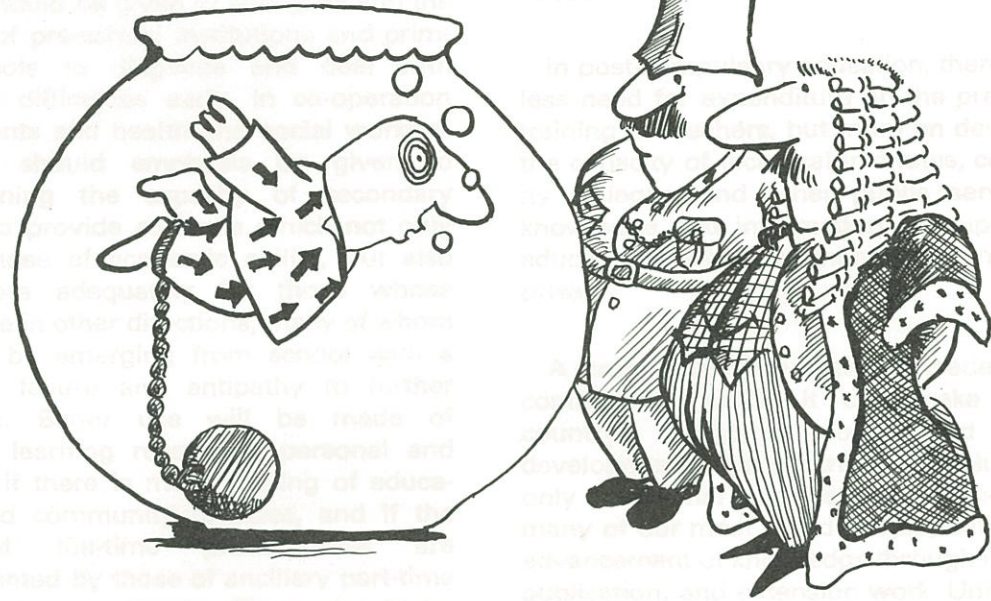
Every school should be encouraged to strengthen its links with parents and the community. Schools should be encouraged to extend their activities to other areas of the community, such as the provision of a rich source of learning experiences. Effective solutions to the difficulties which we have discussed will not be found by action alone. Parents, the media, and community agencies must share the responsibility and develop a more active relationship with the schools. This is particularly important for children from ethnic groups trying to build competence and a sense of identity on the basis of their particular cultural backgrounds.

To put New Zealand on a path of sustained economic growth, it will require a major effort to develop the skills of management and of a labour force which

will be able to cope with a rapidly changing structure of the economy. This will require a major effort to develop the skills of management and of a labour force which will be able to cope with a rapidly changing structure of the economy. This will require a major effort to develop the skills of management and of a labour force which will be able to cope with a rapidly changing structure of the economy.

There will be a need for a more comprehensive system of community education, which will offer the opportunity for a wide variety of courses and activities. This will require a major effort to develop the skills of management and of a labour force which will be able to cope with a rapidly changing structure of the economy.

There should also be a system of how the state, employers, and other sources of support.



## PART III (C)

# LAW AND ORDER

## INTRODUCTION

The social issues facing New Zealand will not be solved solely by tackling the delivery of services such as health and education. Neither can they be adequately covered if the discussion is confined to expenditure-related questions. It has been suggested in Part II that social planning must move beyond the budgetary aspects and that different techniques need to be adopted in order to accentuate the preventive element of longer-term policies. To illustrate this, the Council has taken the area of Law and Order.

The preservation of internal order and stability is a fundamental concern of any society. New Zealanders, in coping with this concern, tend too often to call on government to rule on what they must or must not do. As a nation we have become victims of "creeping legislation" so that most of us are made aware daily that "there is a law against it". In the Council's analysis, there are three major elements in maintaining social order. The first is the individual's own responsibility to make choices about what is right and to work with other individuals and public authorities to correct conditions and practices which lead to antisocial behaviour; the second is the example of parents, teachers, and leaders in the community and community organisations; and the third is the sanction of the law. The Council believes there should be less emphasis on this third element and more on the first two: only in this way can progress be made towards the ideal of a harmonious society with as little recourse to the formal sanctions of the law as possible.

The principle components of our law and order systems in New Zealand are:

- (i) the legislature (the law-making agency);
- (ii) the "interpretive" agencies (the judiciary and the legal profession);
- (iii) the "enforcement" agencies (police, courts, and penal system).

## TRENDS AND PROSPECTS

The legislative base of our law and order systems is complex; every year Parliament is called on to add to or amend existing provisions. In the 1978 session, for example, Parliament passed a total of 149 Acts, and 237 regulations already adopted were tabled in the House. This increasing body of legislation expands into more and more areas of activity. There has also been considerable criticism of the quality of measures prepared at speed and found wanting later. This in itself complicates the process of legal administration. Ordinary citizens feel increasingly unable to sort out legal documents and requirements. In seeking professional advice, they unconsciously lose an element of personal control over their relationships with the law. There is a consensus that a more considered approach to the drafting and passage of legislation would not only help avoid the technical problems of legal complexity but would also help to maintain public respect for the law.

The government expenditures on law and order\* (as a percentage both of GDP and of total public expenditures) have remained fairly constant until the early seventies, when they began to climb, with a particularly large increase in the year to March 1979.

\*See Figure 4, Part I.

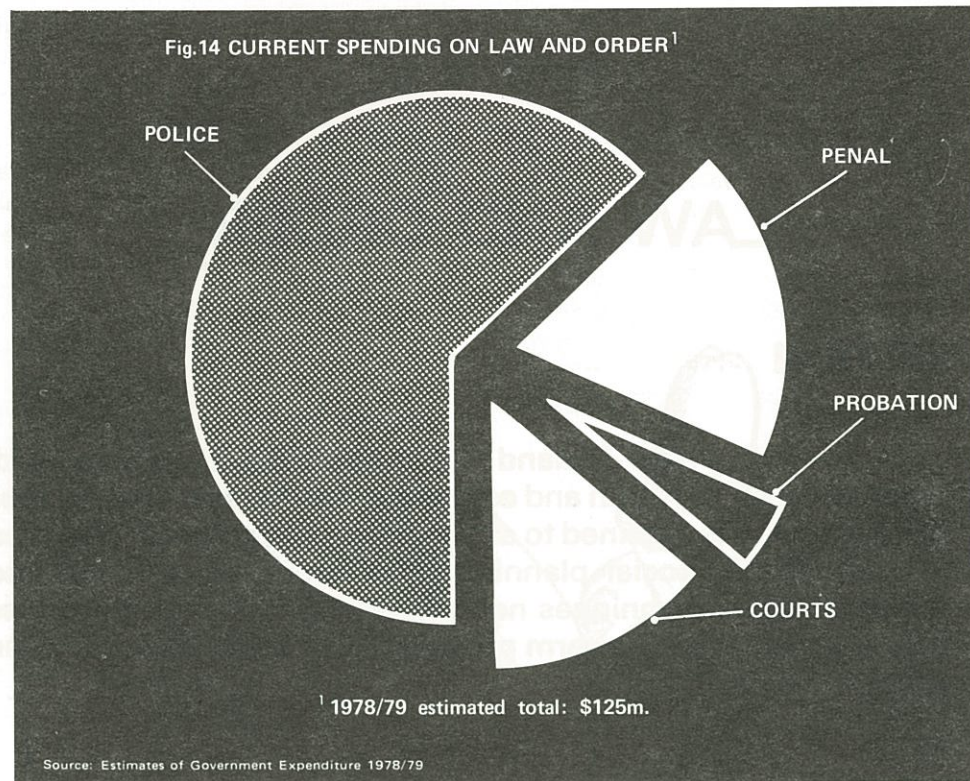


TABLE 12  
PRINCIPAL CATEGORIES OF "LAW AND ORDER" EXPENDITURES\*

	1978-79 (\$m)	Percentage of GDP (%)
Police Force ...	77.7	0.4
Penal ...	25.0	0.2
Probation ...	5.8	0.1
Courts ...	16.4	0.1
<b>Total ...</b>	<b>124.9</b>	<b>0.7</b>

\*Goods and services only—does not include departmental receipts.

Source: Estimates 1978-79.

The available statistics do not give an entirely adequate picture of trends in criminal offending. Data about reported crime and convictions do not, furthermore, tell us about the total incidence of offending. Nevertheless, there does seem to be a pattern of an increasing rate (i.e., per unit of population) of criminal offending from the late sixties onward—not in the most serious crimes of violence, such as murder and manslaughter, but in the range of violent offences against the person, and also in drug offences; there also appears to be an increase in the rate of

offences against property. This is not isolated to New Zealand, but is part of a picture common to western industrialised societies.

Statistics of Magistrates' Courts business show that the rate of court appearances for non-traffic offences has almost doubled in the last 15 years. For traffic charges the rate has increased much more steeply.

TABLE 13  
MAGISTRATES' COURTS: TOTAL CHARGES

Year (Ending March)	Traffic		Non-traffic		Traffic Charges as Percentage of Total Charges
	Totals (000)	Rate Per 1000 Pop.	Totals (000)	Rate Per 1000 Pop.	
1961 ...	91	38	44	18	68
1966 ...	172	64	52	19	77
1971 ...	203	71	64	22	76
1976 ...	307	99	97	31	76

Source: Justice Statistics, Courts annual returns.

This represents the fact that more than 1 person in every 10 (inclusive of re-offenders) is a defendant before our courts: for some groups (e.g., the young, urban-dwelling, low-skilled males) the rate will be much higher.

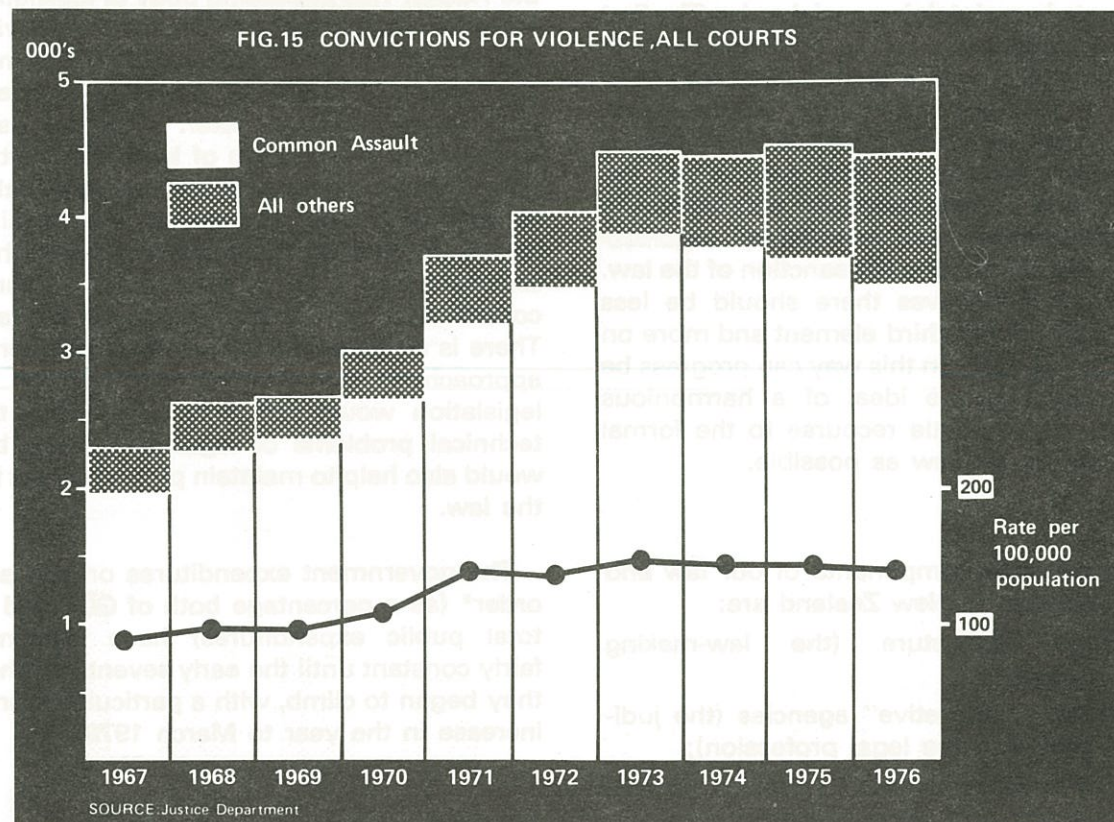
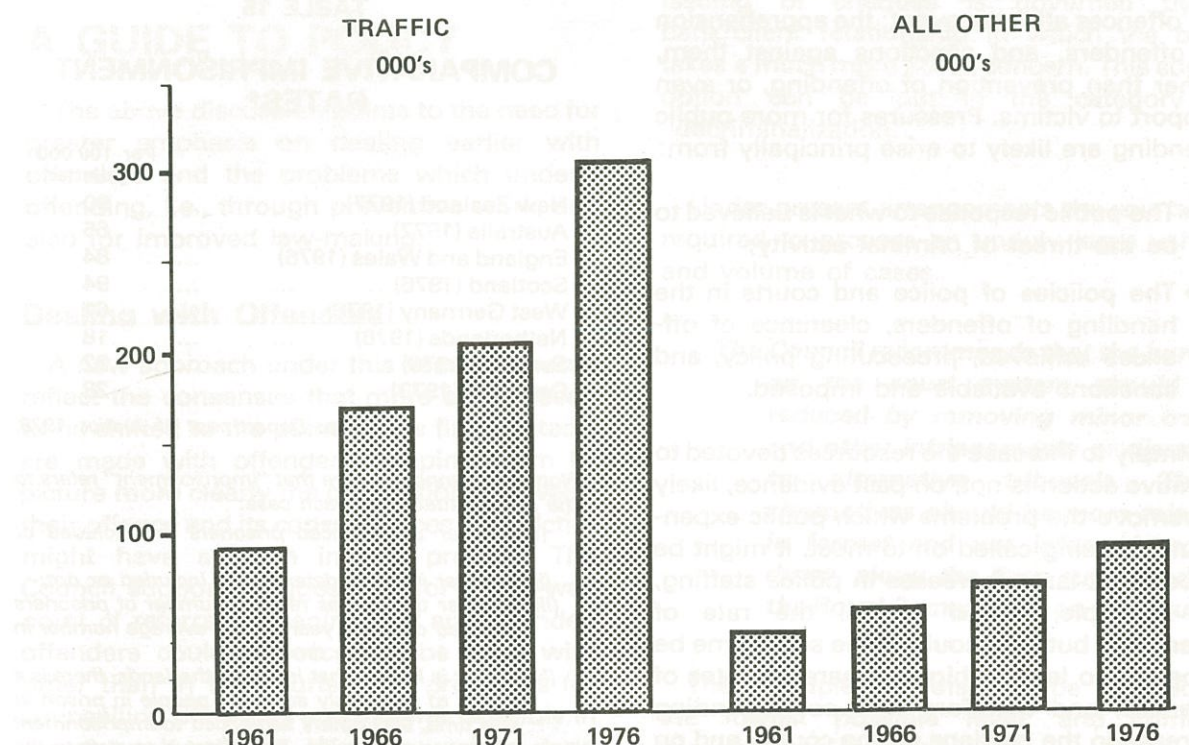


FIG.16 MAGISTRATES' COURTS CHARGES



Source: Justice Department

A set of projections from the submissions to the Royal Commission on the Courts by the Department of Justice, covering possible Magistrates' Courts appearances over the next 10-20 years, suggests that workloads both in courts and penal institutions will rise rapidly.

TABLE 14

**MAGISTRATES' COURTS: PROJECTED WORKLOAD\***

(In thousands of prosecutions)

1970 (Actual)	1975 (Actual)	1980	1985	1990	1995
258	374	440	535	677	851

\*Medium projections.

Source: Submissions by the Department of Justice to Royal Commission on Courts.

The projections may be no more than an indication of where current trends could lead. However they do underline in a dramatic way the need to find satisfactory methods of dealing with offending. The long-term priority is to deal earlier with the problems of social behaviour which are reflected in criminal offending, rather than rely on the use of laws to contain them.

Whatever one estimates the likely level of offending to be and whatever the degree to which we invoke the instruments of the law, expenditures from the public purse are at present still primarily concerned with handling offences after the event: the apprehension of offenders, and sanctions against them, rather than prevention of offending, or even support to victims. Pressures for more public spending are likely to arise principally from:

- The public response to what is believed to be the threat of criminal activity;
- The policies of police and courts in the handling of offenders, clearance of offences achieved, prosecuting policy, and sanctions available and imposed.

Simply to increase the resources devoted to punitive action is not, on past evidence, likely to remove the problems which public expenditure is being called on to meet. It might be hoped that large increases in police staffing, for example, would control the rate of offending; but they could at the same time be expected to lead to higher clearance rates of offences, and therefore to a corresponding increase in the burdens on the courts, and on penal institutions. In the past 6 years the

strength of the Police Force has been increased by 35 percent. There has moreover been an effective doubling of "law enforcement" personnel—mainly in the last 3 years—with the rapid growth of private security organisations. Their staffs now approach a total of 5000 compared with the police strength at 31 March 1978 of 4700. There has however been no apparent check to the rates of offences reported.

In any range of offences designated as "crimes", some will be regarded as particularly serious; there will also be offenders who should be removed from society for the protection of other citizens. Facilities for detaining dangerous offenders will continue to be necessary: but the numbers involved are very small. It is a matter of concern that for the majority of offenders, the sanctions available—and imprisonment is regarded as the strongest—do not appear to be achieving the desired results in terms of two main precepts of penal policy: that imprisonment acts as a deterrent, and that every effort be made to rehabilitate prisoners and prepare them for reintegration with society. What is more, the use of "tougher" sanctions is not only of unproven value as a deterrent or for rehabilitation; it carries with it very substantial public costs.

TABLE 15

**COMPARATIVE IMPRISONMENT RATES\***

	Per 100 000 Population
New Zealand (1977) ...	90
Australia (1977) ...	65
England and Wales (1976) ...	84
Scotland (1976) ...	94
West Germany (1976) ...	61
Netherlands (1976) ...	18
Sweden (1976) ...	32
Denmark (1973) ...	28

Source: Department of Justice 1978.

\*Note: We cannot be sure that "imprisonment" refers to the same situation in each case:

- (i) whether unsentenced prisoners are included or not;
- (ii) whether juvenile detention is included or not;
- (iii) whether the figures refer to number of prisoners received over the year, or the average number in prison at any one time;
- (iv) e.g., it is known that in the Netherlands, there is a policy to have only so many people in prison at one time, and others sentenced to imprisonment go on a waiting list. The effect is to deflate the imprisonment rate.

Violent offending has received particular attention recently in the New Zealand context. Submissions on this topic and other studies of criminal offending discuss a number of possible contributing factors to the general rise in the incidence of crime in most modern industrialised societies. Factors most frequently cited are urbanisation, misuse of alcohol, rootlessness and lack of identity and purpose. High or rising unemployment is considered likely to compound the effect of such factors, particularly for those most "at risk" in our society: the younger age groups, Polynesian and semi-skilled or unskilled groups. White collar crime is also considered to be increasing. The degree of tolerance in some circles towards offences such as tax evasion makes it very hard for society as a whole to avoid the appearance of double standards.

When responses to offending are passed to the institutions established in the field, public opinion tends to assume that the problems are being dealt with. What is really being dealt with are offences and offenders, rather than the underlying causes or contributing factors. Present procedures tend to exonerate the community and pass increasing responsibility to the state; in times of economic and social difficulty there is likely to be rising public concern, even more pressure on government to "do something" about law and order.

**A GUIDE TO POLICY**

The above discussion points to the need for greater emphasis on dealing earlier with offenders and the problems which underly offending, i.e., through preventive work, and also for improved law-making.

**Dealing with Offenders**

A new approach under this heading should reflect the consensus that more effort needs to be shifted to the point where first contacts are made with offenders—helping them to picture more clearly the connections between their offence and its consequences. The victim might have a place in this process. The Council supports suggestions for a mid-way point of referral—meaning that apprehended offenders could on occasion be dealt with other than in the courts—and proposals for counselling offenders and victims, possibly in a community setting. We also wish to draw attention to the comments of the Royal

Commission on the Courts on the possibilities of "diversion" of offenders from the system before they come before the courts. The Council agrees with the Royal Commission that more scope for the exercise of discretion by prosecuting authorities could be helpful; we see merit in looking closely at the present vesting of major responsibility for prosecuting policy in the hands of the Police.

**The Council recommends that the possibility of separating the investigation, apprehension and prosecuting functions of the Police be studied by the Department of Justice.**

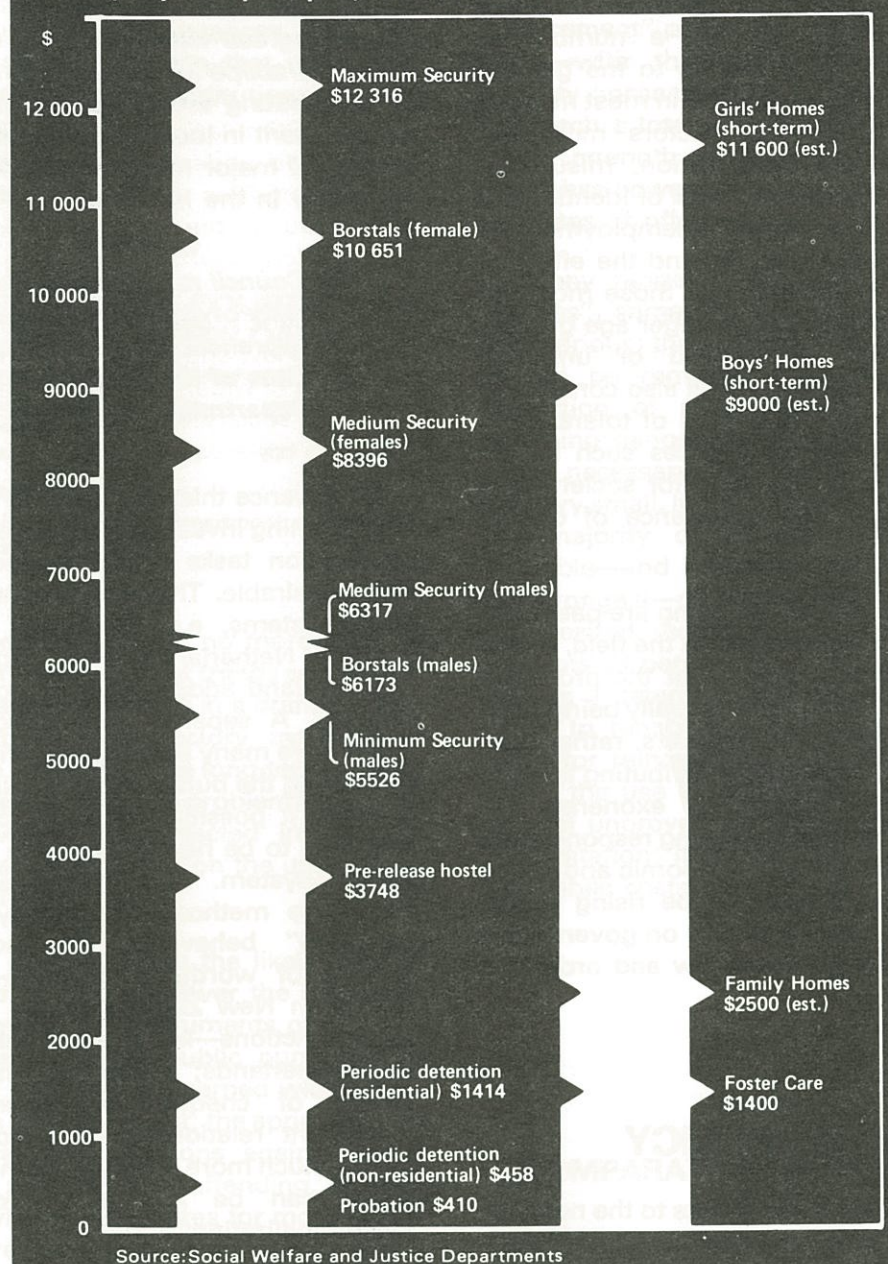
We advance this idea because the principle of combining investigation, apprehension and prosecution tasks in one agency does not seem desirable. They are separated in some other systems, e.g., Scotland, Scandinavia and the Netherlands; their combination in New Zealand adds unduly to police responsibilities. A separate prosecution authority might have many advantages. Another way of decreasing the burden on the Police would be to make it possible for some offences and offenders to be handled outside the criminal justice system. We often overlook the alternative methods for society to control "problem" behaviour. For example, the passing of worthless cheques—a criminal offence in New Zealand which can lead to penal sanctions—is not a criminal offence in the Netherlands; there the holding and issuing of cheques is governed by a bank/client relationship in which the bank takes a much more active concern. This sort of option can be put in the category of "decriminalization".

Under present arrangements the courts are required to process an unduly large variety and volume of cases.

**The Council recommends that the burden on the court system should be reduced by removing minor traffic and other infringements or disputes to alternative tribunals. These alternatives should be more relaxed in format and use informal procedures, along the lines suggested by the Royal Commission on the Courts.**

The principle that disputes be handled at the lowest possible level, and criminal proceedings reserved only for the most serious crimes, is supported.

**FIG.17 JUSTICE AND SOCIAL WELFARE COSTS**  
(per participant p.a., 1977/78)



For some categories of offences there could also be more use of sanctions with less financial costs, compared with the high costs of various forms of detention and imprisonment mentioned earlier. Fines or, for example, directed work effort in the community may well be more effective sanctions in many cases. There could also be extended use of automatic fining for more non-driving offences, e.g., incorrect lighting equipment or tyre treads.

The real problem in New Zealand as elsewhere is to provide for suitable and effective alternatives to imprisonment for petty offenders, and particularly re-offenders, since the present non-custodial alternatives available to sentencing Magistrates and Judges depend on suitable work opportunities, and these are becoming more difficult to secure.

In line with the preventive approach, the Council believes there should be an urgent examination of non-custodial sanctions which could be used in a situation of persistent unemployment. At present, some of the remedial measures rely on comparatively easy access to jobs. Imprisonment should be used only in cases when there is no other way

to handle the offender and ensure that society remains protected. Plans for the further construction of prisons should be guided by this view. The high cost of dealing with crime by imprisonment further supports the move to greater use of non-custodial sanctions. One new suggestion is for the establishment of communal reception centres for offenders. On the other hand, the system must be capable of delivering strong sanctions where these are necessary for the protection of the community at large: the Council believes that trafficking in hard drugs is one area of offending where the social costs of offence merit considerable effort to detect and deter offenders. Hard drug cases have increased dramatically in the last few years; analyses undertaken at the request of the Police by the Department of Scientific and Industrial Research numbered less than 10 for 1968-69, about 120 for 1975-76, and in excess of 600 for 1978-79. (The figures for all drugs rose from less than 100 in 1968-69 to over 3000 in 1978-79.)

### Preventive Work

While most of the action to deal with the underlying causes of crime would fall outside the present categories of expenditure on "law and order", the close involvement of the Police and their knowledge of communities could provide valuable inputs for a preventive social programme. Many elements of such a programme exist already, sponsored for example by the Department of Social Welfare (volunteer social work), Maori Affairs (Community Officers), Internal Affairs (community development) and Justice (marriage guidance). Other public and private sector organisations—such as the YMCA and churches—are also working in this area. The Council commends the greater recognition of this community role in police organisation and training. Its further development, linked with local and community development efforts, would reinforce the preventive approach which the Council would like to see emphasised in all social service areas.

The Council therefore recommends that the partnership between the citizen, on the one hand, and the institutions of law and order, on the other, be reinforced by:

- (a) Increasing the involvement of the Police in the community;
- (b) Spreading awareness among the community of what can be done to discourage certain offences, includ-

ing both "white collar" crime (e.g., customs and income tax evasion) and those which are not real crimes but sometimes indicate lack of social supports (e.g., truancy, vagrancy, petty theft); and

(c) Stimulating wider public discussion and understanding of the roles and activities of the principal institutions—the legislature, legal profession, courts, police.

The Council believes that the goal of improved "law and order" will remain illusory until there is wider recognition that there are groups in society which are under particular pressures towards offending and which are in need of better supports. It is encouraging to note the successful examples of simple, community-based programmes and the Council would like to see these fostered and encouraged. But there is also a large part to be played by the attitudes of the relatively advantaged "ordinary citizen", whose readiness to disregard the application of the spirit of the law to his own actions and to "get what he can" out of a situation is as relevant as the activities of gang members or belligerent pub patrons.

### The Need for Improved Law-making

The work of legislators in drafting laws and of the courts in interpreting them has significant implications for public expenditures on law and order, as does the activity of the legal profession. There is wide consensus on the need for improvements to New Zealand's legislative process.

The Council has already drawn attention to this and recommends specifically that Parliament and those responsible for drawing up the rules governing the process of law give priority to:

- (i) The simplification of the body of laws—not only in terms of language and procedures, but also of the complexity of measures which may apply in certain situations;
- (ii) A reduction in the total number of statutes and regulations; and
- (iii) The elimination of outdated laws passed to deal with particular problems which may no longer exist.

It is noted that the terms of reference for the recent Royal Commission on the Courts

excluded this area, although in its report the Commission underlined "concern over increasing recourse to the criminal law to effect changes in social behaviour".

We also consider it necessary that qualified staff be specially designated to carry out (i) to (iii) above and suggest that progress be reported to Parliament in a special section of the annual report of the Department of Justice.

The Council would also like to see more priority given to research into the appropriate role of the law in our society, the possible "decriminalisation" of certain offences where there is no victim, and the application of such concepts as reparation and "diversion".

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## SUMMING-UP

In New Zealand we have a growing mass of legislation and regulations: it is becoming increasingly likely that individuals or corporate bodies will at some stage be in technical breach of the law. There has in recent years been a steadily increasing rate of court appearances (in relation to total population); concern has also been recorded about using the procedures of law to deal with social problems. We note, furthermore, the comments of the Royal Commission on the Courts.

*"Implicit . . . is the acceptance of the criminal law as the appropriate means of controlling socially deviant behaviour. It may well be that in many areas a more vigorous and radical approach is required, and that we should be seeking to restrain the heavy hand of regulation in favour of more persuasive systems of inducement and reward (the carrot, and not the stick)".*

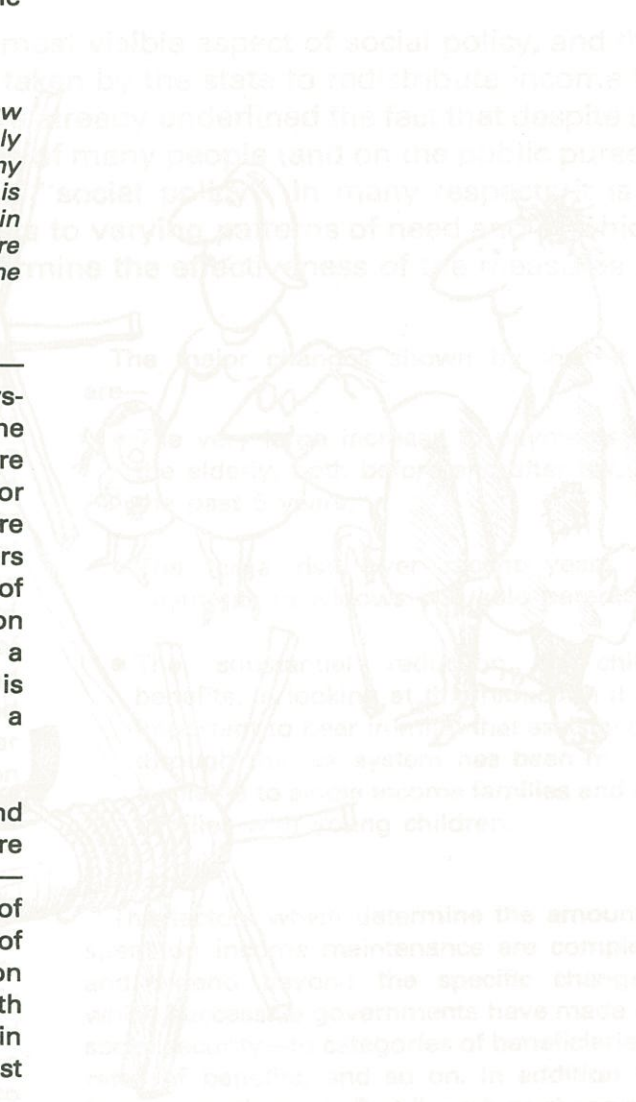
The public institutions of law and order—the legislature, judiciary, police, penal system—are having difficulties coping with the increasing volume of business coming before them. There is a range of offences which, for the protection of society, clearly require punitive sanctions. For a minority of offenders (e.g., the psychotic killer or the organiser of drug traffic) the only solution is detention under conditions of maximum security. For a majority of offenders, however, detention is unlikely to provide either a deterrent or a means of rehabilitation.

Overall, most public spending on law and order flows into institutions which are preoccupied with offences and punishment—the consequences and not the causes of criminal behaviour. The most effective use of public resources calls for greater emphasis on preventive measures which would deal with the underlying problems. This shift in emphasis would in the longer term best ensure the protection of society.

After a period of economic stagnation, the economy is beginning to show signs of recovery. The increase in the number of factors, such as equal pay, has increased the income of many women and the tendency among many young couples to defer having children, and these are compounded by, for example, the increase in the cost of housing. The low level of relative income and the reduction of the value of the family benefit.

In 1981, the number of factors, such as equal pay, has increased the income of many women and the tendency among many young couples to defer having children, and these are compounded by, for example, the increase in the cost of housing. The low level of relative income and the reduction of the value of the family benefit.

MAINTENANCE



During the 1970s, there has been an absolute increase in the number of old people in New Zealand and this is expected to increase at about 2 percent per annum over the next decade. At the same time, because of a falling birth rate, there have only been small increases in the number of children in the population.

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## PART III (D)

# INCOME MAINTENANCE

### INTRODUCTION

In New Zealand as elsewhere the most visible aspect of social policy, and the one which costs most, is the action taken by the state to redistribute income to certain categories of citizens. We have already underlined the fact that despite its very considerable impact on the lives of many people (and on the public purse), income redistribution is not in itself "social policy". In many respects it is a "screwdriver" operation which adjusts to varying patterns of need and in which the skill of adjusting will largely determine the effectiveness of the measures in meeting welfare needs.

In looking at income maintenance, therefore, two points need to be kept constantly in mind. One is that each turn of the screwdriver in one area—for example a change in the eligibility criteria for the unemployment benefit—creates a need to see whether other components in the machinery of social welfare have been thrown out of balance. The removal of one anomaly frequently leads to others. The second point is that—because of the economic and social processes described in earlier sections—new categories of need appear from time to time. They can appear with relatively little warning, and it is often difficult to foresee their implications over the next 5 to 10 years.

Awareness of the impact of social change is, however, growing. The Council shares the present widespread concern about the financial position of single-income families. This concern has been increased by several social and economic developments. When one partner of a couple leaves the labour force to look after a child, for example, that couple suffers a much greater fall in income than was the case in the past. This is the result of a number of factors, such as equal pay having increased the incomes of young women and the tendency among many young couples to defer having children; and these are compounded by, for example, the increase in the costs of housing and debt servicing relative to income and the erosion of the real value of the family benefit.

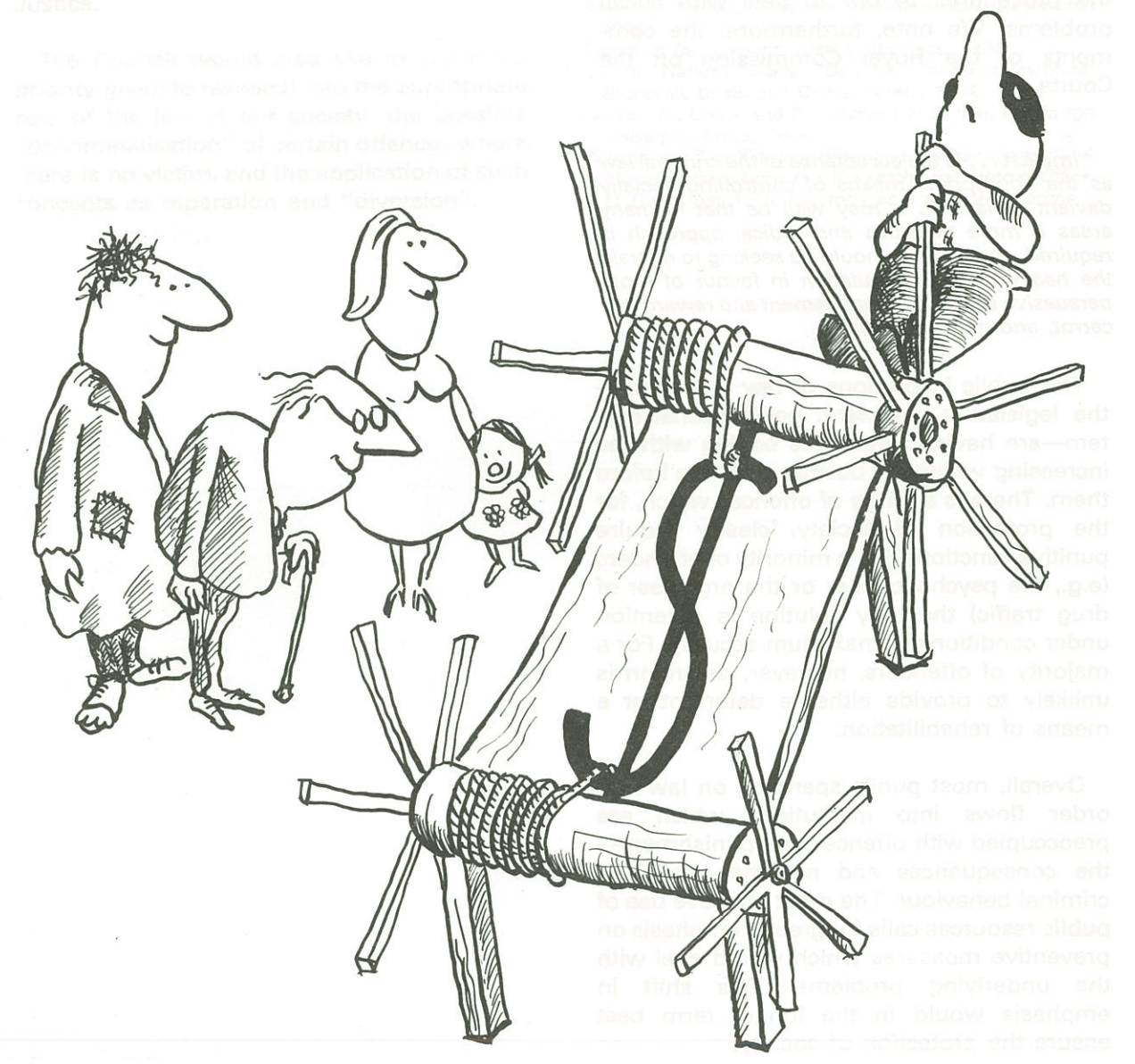
Table 16 (over) sets out the changes in social security expenditure since 1950.

The major changes shown by the table are—

- The very large increase in payments to the elderly, both before and after tax, in the past 5 years;
- The large rise over recent years in payments to widows and solo parents;
- The substantial reduction in child benefits. In looking at this reduction it is important to bear in mind that assistance through the tax system has been made available to single income families and to families with young children.

The factors which determine the amounts spent on income maintenance are complex and extend beyond the specific changes which successive governments have made to social security—to categories of beneficiaries, rates of benefits, and so on. In addition to factors mentioned in Part II, such as changing attitudes towards marriage and the changing family structure, the following also influence spending on income maintenance.

- (a) Demographic changes: There has been an absolute increase in the number of old people in New Zealand and those over 60 will increase at about 1.3 percent per annum over the next decade. At the same time, because of a falling birthrate, there have only been small increases in the number of children in the 1970s compared with the 1960s.





**TABLE 16**  
**SOCIAL SECURITY EXPENDITURE**

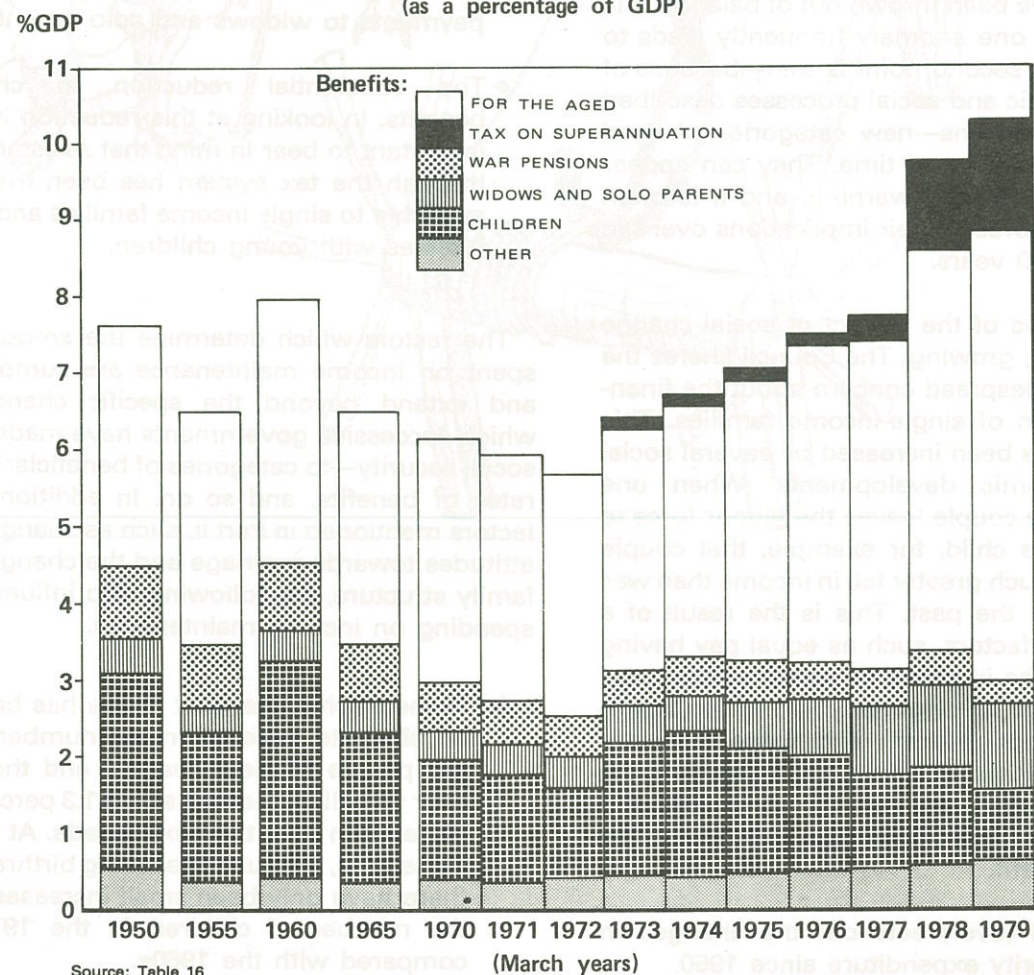
(As a Percentage of GDP)

March Years	Aged (Before Tax)	Aged (After Tax)	Children*	Widows and Solo Parents*	War Pensions*	Other*	Total (Before Tax)	Total (After Tax)
1950	3.13	3.13	2.68	0.44	0.91	0.46	7.62	7.62
1955	3.09	3.09	1.94	0.33	0.82	0.34	6.52	6.52
1960	3.44	3.44	2.88	0.39	0.91	0.36	7.98	7.98
1965	3.07	3.07	2.08	0.35	0.76	0.28	6.54	6.54
1970	3.18	3.18	1.63	0.36	0.62	0.34	6.12	6.12
1971	3.16	3.16	1.44	0.39	0.56	0.33	5.89	5.89
1972	3.11	3.11	1.23	0.41	0.53	0.36	5.64	5.64
1973	3.27	3.09	1.77	0.46	0.51	0.40	6.42	6.23
1974	3.46	3.29	1.90	0.50	0.49	0.39	6.74	6.57
1975	3.82	3.63	1.67	0.62	0.51	0.42	7.02	6.83
1976	4.28	4.10	1.55	0.75	0.46	0.45	7.49	7.31
1977	4.56	4.20	1.24	0.91	0.50	0.48	7.69	7.33
1978	6.39	5.20	1.26	1.06	0.47	0.51	9.76	8.57
1979	7.11	5.70	0.94	1.17	0.47	0.76	10.45	9.04

\*These benefits are tax free.

Source: Companion Volume, Table 8.

**FIG.18 SOCIAL SECURITY EXPENDITURE, 1950-1979**  
(as a percentage of GDP)



Source: Table 16

(b) Economic trends: The economic situation in the late 1970s has led to levels of unemployment not experienced since the 1930s.

(c) Changes giving rise to expenditure outside the budget: In 1974, for example, accident compensation was made available to some people who would previously have claimed social security benefits. Accident compensation, being separately funded, is not included in public expenditure on income maintenance (apart from about \$13 million provided from Vote: Social Welfare for payment in respect of accidents of non-earners).

In this chapter, we will look at the existing system and try to clarify the objectives it is designed to serve. The background to the development of various elements is set out in Appendix 2 and a select bibliography is given at the end of the chapter. At various points we will refer to the findings of the Royal Commission on Social Security, which sat in 1970-71 and reported in 1972. The Council's main aim is to sketch out a framework for income maintenance policies over the next decade. We have some suggestions which are quite specific and no doubt controversial. In our view, however, some adjustments to income maintenance policies are inevitable if an adequate and equitable welfare system is to be sustained.

## THE ADMINISTRATIVE MECHANISM

There is a range of legislative provisions covering different aspects of income maintenance. The main responsibility for administration of the benefit system rests with the Department of Social Welfare. Indeed the administrative aspects of income maintenance constitute by far the major part of the department's workload. At the same time, a significant sum of money (currently around \$40 million) is spent by the Department each year in the wider area of "social work", including casework and rehabilitation activity at the individual and community level. The department is also responsible for research and the co-ordination of various aspects of social planning through bodies such as the Social Development Council and the New Zealand Council of Social Service.

The introduction of accident compensation has led to the establishment of separate machinery under the Accident Compensation Commission to handle this category of

income maintenance. The counter work is handled through State Insurance.

The availability of cheaper and more versatile data-processing equipment may make it possible, at some future date, to consider bringing the actual processing of all benefit payments under one agency. There can be little doubt that in the eyes of the client the existence of sophisticated technology, combined with other changes in society, has increased the impersonal element in the administration of income maintenance schemes. On the other hand, it has also enabled the Department of Social Welfare to handle a much greater workload without increasing staff numbers. The question for the future is whether it would make sense to separate the mechanics of payment from the administration of policy and to combine this move with a degree of decentralisation in some aspects of social welfare. If this were done the Department would undoubtedly be able to devote greater attention to central issues of social policy, including new areas of need and some of the activities touched on in Part II of this report. It should be noted that the responsibility for the benefit system is a powerful factor which holds the Department within a highly centralised structure. Although individual officers can and do involve themselves in local initiatives, there is clearly a limit to which the present range of departmental responsibilities for income maintenance can be decentralised.

## OBJECTIVES AND PHILOSOPHY

It can be seen from the survey in Appendix 3 that each of the three income maintenance schemes has a different objective:

- The meeting of need by social security;
- The compensation for loss of income by accident compensation; and
- The provision of an age pension as of right by National Superannuation.

In addition, there is the objective of providing basic living standards which is reflected in support to low-income families. Since objectives are not always explicit, and are sometimes in conflict, there can be a lot of confusion among the wider public about what various measures are designed to achieve. A considerable amount of income support is "unseen", since it comes indirectly through tax measures, the availability of housing assistance, and so on.

Within the three main schemes there are various categories of people being catered for. There are:

- Persons who have a temporary interruption in or long-term lack of earned income;
- Those who have come to or are approaching the end of their working lives;
- Those who cannot work because they have the sole responsibility for dependents;
- The child who is still dependent.

It is possible to make a distinction between predictable and unpredictable needs for income maintenance. Unforeseeable misfortunes arising in the course of a person's working life can be seen as giving rise to different needs from those which arise from foreseeable life circumstances. Sickness, or accident or unemployment normally happen to only a relatively small proportion of the population at any one time, although a high percentage of people are likely to be affected at some stage of their working lives. On the other hand, most people have children and most live into old age. The former conditions, in general, lead to a shorter period of dependency than do the latter.

There is therefore justification for designing income maintenance schemes in a manner which recognises the needs of those who are in unpredictable as opposed to predictable circumstances. However, there is no justification or logic for making distinctions among those who face unexpected misfortune, for whatever cause. Some people would nevertheless consider it reasonable to treat various categories in terms of the degree of control which an individual may or may not have over the circumstances which give rise to need. Careless driving, appearing dirty for a job interview—these are situations in which society will tend to make a judgment about the "responsibility" which should be borne by the individual. It is a short step from this to suggesting that benefits be withheld. But other issues, and in particular legal responsibility, would then arise. In general, therefore, the state has little option within the present benefit structure. The criteria for need have to be laid down and if they are met the benefit has to be in a standard form. Thus the type of benefit can either encourage or discourage change in lifestyle.

The primary objective of income support policies could therefore be stated as being to meet needs in such a way that everyone has an acceptable level of income (or that no-one

is unacceptably poor). The Council agrees with the Royal Commission that the aim of New Zealand's income maintenance schemes should be to meet need in such a way that everyone is able to feel a sense of belonging to the community. There is of course a limit to the degree that this can be achieved by monetary transfers. In the discussion that follows we shall, however, concentrate on the benefit structure itself, starting with the concept of a standard rate of benefit.

## OPTIONS FOR REFORM

### 1. Benefit Rates

The Council believes that variations in levels of income maintenance should be based on beneficiaries' needs and not as at present, on the historical origins of the scheme under which the beneficiary establishes entitlement. In the long-term the failure to base income maintenance provision for different categories of beneficiary on the common basis of need is harmful in its effects. It is both confusing and inequitable, and leads to pressure for less generous programmes to be upgraded in line with more generous programmes (as with the present pressure to provide income maintenance for sickness beneficiaries at the levels now available to persons entitled to accident compensation).

Use of the concept of need would have two main consequences:

- It would focus attention on understanding the actual circumstances of different groups of beneficiaries. In comparison with other western nations New Zealand has very little research information available so that policy making takes place with an inadequate understanding of the particular issues to be resolved.
- An emphasis on needs would point towards the establishment of a standard rate of benefit as a "core" benefit for all beneficiaries which would be varied on the size of household. In addition there would be provision for special assistance to meet special needs.

Any income maintenance scheme should be designed not only to achieve equity amongst different categories of beneficiary but also as between beneficiaries on the one hand and wage earners and other non-beneficiaries on the other hand.

For this reason the Council believes that all benefits should be—

- Taxable income in the hands of the beneficiary;
- Related to the after-tax equivalent of an appropriate wage measure. This means that the after-tax income of, for example, national superannuitants, would be related to the after-tax income of the person on the average ordinary-time weekly wage.

These measures are desirable in order to preserve relativity with wage earners (whether real incomes are rising or falling) and to avoid distortions which would otherwise arise through differential tax rates or tax treatment. Both these problems can be seen with our present income maintenance schemes as the following figures on weekly income after tax for married people (assuming no other income) show:

	\$
Average weekly earnings ...	111.17
National superannuitants ...	96.58
Builder's labourer ...	94.71
Social security beneficiary ...	81.28

(For details see Appendix 3, Table A6.)

When the Royal Commission reported in 1972 it recommended that the standard married rate of income-tested benefit should be set at 80 percent of the building labourers' net (after-tax) earnings and that the single rate should be 60 percent of the married rate.

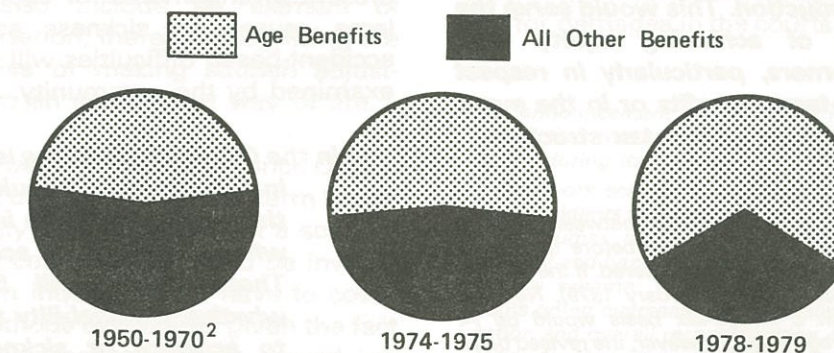
Since that time income-tested benefits have been increased to the point where the married rate equals 86 percent of the builder's labourer's wage.

A similar problem has arisen in respect of National Superannuation. The married rate of National Superannuation is calculated as 80 percent of the average ordinary-time wage before tax. However, the tax on National Superannuation (assuming no other income) is 14.5 percent and is substantially lower than the average tax on the average ordinary-time wage which is 21 percent. The effect of this is that the married rate of National Superannuation after tax is now 87 percent of the average ordinary-time wage after tax and will be proportionately higher with each successive half-yearly adjustment.\*

A related problem arises with short-term income-tested benefits such as for unemployment and sickness. The majority of these benefits are paid for less than 3 months and so supplement an annual income which comes mainly from taxable wages. Because the benefits themselves are non-taxable, two taxpayers receiving the same gross income over a 12-month period pay different levels of tax where one of them received all that income from wages or other taxable income and the other received part of that income from a non-taxable benefit.

\*For details see Appendix 3.

FIG.19 AGE BENEFITS AS A PROPORTION OF TOTAL SOCIAL SECURITY PAYMENTS<sup>1</sup>



<sup>1</sup>After Tax

<sup>2</sup>Average, March years

Source: Table 16

The Council recommends that a number of changes, some short term and some longer term, be made:

(a) Short-term changes:

- (i) *The basis for indexing National Superannuation should be shifted from the average wage before tax to the average wage after tax. This would be done by expressing the net married rate of National Superannuation as 80 percent of the net average ordinary-time wage (with the single person receiving 60 percent of that rate) and then grossing up superannuation payments by the amount required to meet standard rate PAYE deductions. The effect of this would be to preserve the constant relativity of 80 percent on a cash-in-hand basis and eliminate the distortions resulting from differential tax treatment.\**
- (ii) *Income-tested benefits should be related to after-tax wages. In order to preserve relativity both with wages and with National Superannuation the average ordinary-time wage, after deduction of tax at the married rate, should be the reference point for benefits. At the present time the married rate of income-tested benefit is 73.1 percent of the average ordinary-time wage after deduction of tax at the married rate†. In the short term this should be used as the standard relationship.*
- (iii) *Income-tested benefits should be made taxable. As with National Superannuation this would be done by striking the net rate of benefit and then grossing it up by the amount required to pay the standard rate of PAYE deduction. This would serve the purpose of achieving equity with wage-earners, particularly in respect of short-term benefits or in the event of any change in the tax structure.*

\*As a result of this change the relation between National Superannuation and average wages before tax would vary as their rates rose or taxation altered. If the change is applied on present rates (February 1979), National Superannuation on a before-tax basis would be 74 percent of the average wage. However, the revised basis would be adjusted over a sufficient period to ensure that no superannuitant suffered an actual reduction in benefit.

†For details see Appendix 3.

(b) Longer-term changes:

*In the longer term it is considered that all income maintenance schemes should be based on a standard benefit which would be taxable. Provision would also have to be made to meet special needs. Establishment of such a standard benefit should be preceded by adequate research into the needs of beneficiaries.*

In terms of government expenditure it is estimated that basing National Superannuation on the average ordinary-time wage after tax, as suggested above, would save approximately \$108 million before tax and \$86 million after tax on an annual basis at present rates.\* The amounts will of course rise as benefit rates are adjusted.

From the other short-term measures it can be expected that government would receive an additional, but not substantial, amount of income tax as the result of making income-tested benefits taxable (basically because of the effect on short-term benefits paid to people drawing the bulk of their income from taxable wages). It is not possible to assess the effect on expenditure of introducing the proposed standard benefit. As its objective would be to relate benefits more strictly to needs, it can certainly be expected that savings would result.

## 2. The Sick and Disabled

At present persons with virtually identical physical conditions receive different financial support depending on whether their condition arose through an accident or through illness. This is an illogical position and it leads to considerable inequities. The Council believes that over the period covered in this report the present arrangements for coping with problems caused by sickness as opposed to accident-based difficulties will need to be re-examined by the community.

*In the Council's view, the level of benefits in this category should be based on the needs which the individual faces when sickness or accident occurs. These needs will be the same whether the inability to work is due to accident or sickness. Although there are historical reasons for the*

\*For details see Appendix 3, Table A7.

*difference in treatment now accorded, the logical direction for future policies is to place both accident and sickness benefits on the same footing.*

A number of options exist for doing this:

*Option A:* The benefits of accident compensation could be extended to cover sickness as well. This option, while desirable, would be very expensive and would not conform to the stated objective of containing the rate of growth of government expenditure.

*Option B:* The present inequities between sickness-related and accident-related benefits could be left as they are, premised on the hope that at some stage in the future New Zealand would be able to afford *Option A* above.

This alternative, however, envisages the continuation of inequities for an indefinite period of time and would not be in accord with the aims of meeting needs and ensuring a sense of belonging to a community that is equitable to all.

*Option C:* An attempt could be made to bring together sickness and accident benefits, incorporating elements from each to create a new scheme which would be fair in both situations (even where the person affected had no income, e.g., a housewife). Such a scheme would recognise the financial difficulties of unexpected loss of earnings but would not be as generous as the present accident compensation scheme. It would be in accordance with the primary objective of income maintenance—to meet needs—and could also include an element of compensation, thereby recognising the difficulties of making sudden adjustments to an established way of life.

The Council believes that on balance *Option C* is the fairest one in the medium-term future and accordingly recommends that a scheme covering both categories of need be investigated. Such an inquiry would have to cover alternative methods of funding, given the fact that accident compensation is based on payment of levies by employers and motor vehicle owners while sickness benefits are funded direct by the taxpayer.

*Major features of a combined scheme might be:*

- (i) *There would be no benefit for a brief initial period;*
- (ii) *On extension of incapacity beyond this period, earnings-related benefits would be paid only for a limited period, such as 3 months;*
- (iii) *Benefits would be paid at a standard rate for the remainder of the period of incapacity. Eligibility would depend on a means test, and a system of abatement would have to operate;*
- (iv) *Expenses for accident victims and the sick would be treated on the same basis;*
- (v) *Rehabilitation schemes now available to accident victims would be available on the same terms to the sick.*

The Council's estimate of the cost of (ii) above is \$8 million per annum. Although the data at present available is insufficient to enable costing for (iii) and (iv) above, savings under both are likely to be substantial, making the net cost of such a package to the community relatively small.

It has recently been decided that certain detailed provisions of the accident compensation scheme should be examined by a joint Government Committee of Cabinet and Caucus members\*. It is apparent that the committee will be looking at some of the features which we list as relating to a possible combination of the two schemes. We would not however want the longer-term benefits of *Option C* to be lost sight of. There are also some important reservations which the Council would like to record. Prior to the present accident compensation scheme, for example, some accident victims were able to sue for damages in the courts. However, there

\*An announcement by the Prime Minister, on 5 April, stated that the committee would cover the following topics during its review:

*Non-work accidents; payment for medical treatment of all accidents; a review of first-week compensation and lump sums; compensations relating from criminal conduct and hazardous activities; a review of the motor-vehicle scheme; the situation of claimants or dependants going overseas; the maximum levels of compensation and overall reconsideration of benefits; compensation for New Zealanders overseas; levies on visitors; a review of the effectiveness and appropriateness of the Accident Compensation Commission's structure and a general review of the finance for the Accident Compensation Scheme.*

are a large number of people who now qualify for accident compensation who could not obtain damages in a civil suit because they could not prove someone else was at fault, or because the person at fault did not have the means to pay, or because their losses were too small to warrant the cost of litigation. In recommending investigation of a new scheme which would involve a substantial improvement in the conditions applying to sick people, and which would retain the right of universal compensation regardless of fault for accident victims, the Council would not like to see any reversion to the pre-1974 position as far as the right to litigation in accident situations is concerned. Given the fact that the creation of such a scheme would involve major changes to present arrangements, it would require a good deal of detailed investigation. An opportunity would need to be given for interested groups and individuals to make representations to either a commission of inquiry or a select committee of the House.

### 3. The Unemployed

There is a case for treating the unemployed person, who would prefer to work, in the same way as the sick person who would prefer to be back at work. The involuntarily unemployed are no more responsible for their unemployment than the sick are for their incapacity; this has long been recognised by our social security system which has treated the two groups similarly. A major aim of the Council's strategy is to promote economic growth so that, among other things, unemployment will be minimised. An adequate benefit structure must nevertheless be provided.

If the combined scheme for the sick and the disabled recommended above were introduced, the unemployed would be at a disadvantage unless similar changes were made in provisions for them. There are however many special problems concerning unemployment benefits, particularly in a period of high unemployment. These include such questions as—

- Should earnings-related benefits be paid for a period to full-time workers who become unemployed?
- Should part-time workers be eligible for benefits?
- Should the benefit be extended to married women who become unemployed?

- Should unemployed school leavers receive higher benefits than those who undertake tertiary education?

Because of the complexity of the issues involved, the Council is to carry out during 1979 a major study dealing with the whole area of employment, training, and unemployment.

Included in that study will be an examination of the unemployment benefit. Rather than comment out of context the Council will therefore pursue consultations with interested parties which are part of that wider study. On the assumption that at least some elements of the approach recommended in this chapter do become policy over the next 5 years or so, it is however obvious that there would be direct implications for the unemployed.

### 4. Elderly People

The implementation of National Superannuation has been a watershed in the development of age benefits and it is important to recognise that the system and its impact on our elderly citizens is complex. Inevitably, as familiarity with the system grows, there emerge changes that need to be made. The Council takes the view that such changes should be introduced step-by-step over a period.

*For reasons stated elsewhere, the Council is firmly of the view that some reduction in the total being paid out under National Superannuation is an essential element in any strategy to contain the growth of public expenditure, while effectively meeting areas of real welfare need.*

These needs will obviously vary from case to case, and also in relation to changing work patterns, which already demonstrate the tendency for some people, particularly women, to work longer than they used to. Universal eligibility for National Superannuation from age 60 has resulted in its payment to a substantial number of people who are still in employment. This has given more weight to the idea of superannuation as a reward for past contributions to society and less to the objective of meeting a need for income maintenance. It is, of course, very costly to make this benefit available at age 60

to those who are not in need, and may restrict opportunities for meeting need in other areas. On the other hand, the universality of the scheme was in itself seen as a means of widening the choice for older people (by allowing them to feel that they would not forgo a "benefit" by deciding to continue in paid employment).

There is now some evidence that the very existence of a universal benefit has led to the adjustment of retirement provisions by some employers to make it compulsory to stop work at age 60. This removes the scope for individual choice and contrasts with a trend in other countries towards more flexible provisions, allowing both earlier and later retirements.

In international terms, old age is generally considered to begin at 65 years or later and in New Zealand less than a third of men of that age are still employed. However, at age 60 more than two-thirds of New Zealand men are working, the proportion in employment diminishing gradually over the subsequent 5 years. It would be possible to modify the superannuation arrangements so that universal eligibility was from age 65 but with options for some of those retiring earlier to receive a benefit earlier. Thus there would be two classes of benefit: National Superannuation and "Early Superannuation". Though a useful criterion, retirement alone would be an inappropriate measure of eligibility because of the differing financial circumstances among retired people. It would therefore be more appropriate to base Early Superannuation on some forms of means test. Early Superannuation and National Superannuation would be paid at the same rate.

It has also been suggested to the Council that a surtax might be charged on National Superannuation payments to those already enjoying above average incomes. We do not, however, wish to suggest that the solution to unnecessary transfer payments by the state lies in discriminatory tax provisions which would result in the funds being handed back to the state.

*After considering the various options, the Council has concluded that the most desirable move at this stage would be to shift progressively from the use of age 60 as the age of eligibility. The Council recommends the initial*

*adoption of age 62. This should be introduced in two stages, with a rise to age 61 as soon as possible and an increase to age 62 two years later. When the qualifying age is raised it could create new cases of need, such as those who are unable to work for health reasons and those who are forced to retire. Although sickness benefits may meet some cases, and although those who registered could be covered by unemployment benefits, those measures alone would make retirement an unattractive option. Most Council members would therefore envisage payment of an income-tested retirement benefit (on the lines of the Early Superannuation proposal referred to above) to those who choose to leave the workforce (or have to leave) at age 60. The annual savings of moving the age of universal eligibility to 62, and introducing a means-tested benefit at the same level as National Superannuation, would be \$76 million gross or \$43 million net.*

*Some Council members believe that further adjustments should be made to carry the age of universal eligibility from 62 to 65 as soon as possible. The annual saving of raising the age to 65 would be \$151 million gross or \$86 million net\*. During the transitional phase, these Council members recognise the need for a means-tested benefit scheme but believe that in the longer term the only benefit scheme for the elderly should be a universal scheme, along the lines of National Superannuation, but from age 65. The minority believes that this change would result in a more equitable sharing of the social costs arising from the need to adjust the economy to new realities, and that it would have the additional advantage of encouraging able and experienced people to stay in the workforce.*

*In conjunction with the change in the age of eligibility, the Council believes there should be an early decision to adopt the after-tax basis for calculating the relativity of National Superannuation rates to the average ordinary-time weekly wage*

\*For details see Appendix 4.

(explained above on page 82). As already noted, this would lead to an annual reduction of \$108 million gross or \$86 million net at current levels of disbursement.

The Council would like to emphasise that it is not suggesting change merely for the sake of change. Its concern is with the overall equity of different forms of income maintenance and with the burden on the public purse under the circumstances currently facing New Zealand (and fully analysed in Part I above). It has not considered the merits of National Superannuation as against the previous New Zealand Superannuation Scheme because the policies of both main parties suggest that effort should be concentrated on what we now have.

## 5. Caring for Children

The Council considers that a serious difficulty now arising in the income maintenance field is that of dependent children and those who care for them. A growing awareness of this problem has resulted from public discussion of the difference between so-called "one income" and "two income" families\*. In this context the Council believes it is important to remember that we are not concerned solely with the national stereotype of a married couple with one or more dependent children. Over 60 000 New Zealand children are being cared for by solo parent families which, by definition, are unable to become two-income families. Any market income which a solo parent beneficiary might earn is subject to early and substantial abatement which places an effective ceiling on his or her opportunity to supplement family resources whilst remaining on the benefit.

**Traditionally, problems of family income have been looked at in terms of the resources which the principal income earner within the family (or the**

\* It is important to keep in mind that many, if not most, two-income families are actually "one-and-a-bit" income families with one spouse working full time and one part-time. The total income of such families may not be much different from that of families in which only one spouse works but earns significant overtime; the social and personal costs of working would be differently distributed within the two types of family.  
† Solo parents who receive a market income in addition to their benefit may be better off financially than many two-parent families but they are still at a significant disadvantage when compared with two-income families.

**beneficiary within the family without a market income) has been able to command. The Council believes it is more appropriate to concentrate attention on the needs of the child and the question which policy makers should ask—both in respect of families with a market income and those without—is what minimum level of support should be made available for dependent children.**

There is mounting evidence to indicate that, as a society, New Zealand makes inadequate provision to ensure that a minimum standard of support is available for dependent children. In a previous Council study prepared for the Council ("Income Maintenance and Taxation—Some Options for Reform") there was an examination of the relative income requirements of different family units. One of the suggestions was the adoption of a system of "income equivalences". This would allow the calculation of the different income levels required by different family units, from which it would be possible to ensure that all could achieve the same basic standard of living. "Equivalences" are calculated according to the number and ages of members of a family unit. For example the study indicated that a couple with two children requires approximately one and one-half times the income of a couple with no children.

Although the equivalence scale presented in the study should be regarded as a preliminary one only, it does highlight the question of whether we make adequate provision for dependent children. To take a common situation, a single income family in receipt of the average wage and with three dependent children, assuming family benefit and maximum tax rebates, has a total net income 21 percent higher than that of a married couple also receiving the average wage but with no dependent children. On the basis of the equivalence scale adopted, an addition of 77 percent rather than 21 percent to the former family unit would be required to achieve parity of living standards.

Changes of this magnitude or anything like them would clearly be very expensive. The difficulty of moving in this direction is compounded when economic circumstances require restraint in the growth of social welfare expenditures. This means that any significant additional assistance for dependent children must come through reductions

in other expenditures. Possible options include:

- A: Restructuring existing benefits so that they are more selective in their impact. For example, the family benefit instead of being a universal entitlement could be based on need;
- B: Optional income splitting for tax purposes for the income earner in a single income household (this approach would give proportionately more assistance to high income earners than low income earners);
- C: The development of a "negative income tax" based on income equivalences. The effect of this would be that households whose income was beneath the level regarded as adequate for their particular composition would receive a supplementary payment through the tax system. Possible objections to this approach include complexity, effect on work incentive, and the additional cost.

In considering this issue the Council is very conscious that, to respond fully to a need, it is not sufficient to establish that a household has an inadequate income. It is also necessary to look for the reason for that inadequacy. If the reason itself can be dealt with so that the need disappears then the cost to the state will almost invariably be less.

This issue is highlighted in the case of the solo parent family dependent on benefit income. In the Council's view, New Zealand has opted for an approach to income maintenance which has the effect of locking many solo parents into the benefit system. The Council considers that it would make much better sense to regard benefits such as the domestic purposes benefit and, in some cases, the widows benefit, as transitional benefits. This approach would assume that the ideal for the beneficiary was to become self-supporting through a market income, as and when the responsibilities for caring were reduced and the capacity for income-earning was increased. While the dependants of the solo parent required full-time care, the domestic purposes benefit would be available as of right but subject to a means test. Once the dependants no longer required full-time care, however, although the option of receiving the benefit would remain, the solo parent would be encouraged to seek employment. Such encouragement would include:

- (i) Adequate retraining and skills training programmes;

- (ii) A sympathetic employment counselling and job placement service geared to the particular needs of the beneficiary.

Overseas experience (for example the American Work Incentive Programme) indicates that such an approach will fail if its chief motivation is to get people off the welfare rolls. Although an important argument for this approach is the prospect of reducing expenditure on income maintenance as former beneficiaries become self-supporting, it seems it would only be successful if it is seen as facilitating rather than forcing the beneficiary's return to the workforce. It has to take full account of the particular difficulties which a solo parent will face in obtaining and keeping a job: for example, school holidays, children's illnesses.

Apart from the implications for government expenditure, the various issues considered in this discussion of dependent children and those who care for them raise difficult problems of equity as between beneficiaries and wage earners. They arise not only in terms of relative incomes but also in terms of provisions which would be necessary if there were to be a real prospect of the majority of beneficiaries re-entering the workforce whilst their children are still dependent. For these reasons the Council sees this portion of the discussion of income maintenance as raising questions for future consideration rather than being the basis for immediate recommendations.

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## Summing-up

At various times in life, the individual New Zealander can be faced with the need for income support. This is most obvious (and most inevitable) in the case of old age. The degree of need itself varies according to individual circumstances. The state has developed an elaborate structure of benefits to cover different categories of need. The main policy issue—which can never be completely resolved since the circumstances of society are constantly changing—is whether the balance of treatment accorded to the different categories of beneficiary is in direct proportion to the real needs of the individuals concerned.

The present system is characterised by the following:

- (a) After a period of two decades during which government expenditure on income maintenance declined as a proportion of GDP, large increases have occurred in the 1970s. There is considerable public concern about financing such an increase and about the effectiveness of that spending.

- (b) The application of different support systems to different groups has led to anomalies, e.g., between accident victims and those who are sick.

- (c) Rates of benefit are related more to the nominal category of beneficiary than to the actual degree of need.

- (d) The introduction of National Superannuation has led to a considerable transfer of funds from the working population to the over 60s; this in turn may affect the attitudes of wage and salary earners towards the payment of taxes. The Council believes that at present need is probably most acute in the case of the worker who has responsibility for dependants in a one-income household.

The Council has put forward a set of suggested changes which are quite specific. It has also mentioned some of the areas where further consideration needs to be given to the balance of present benefit provisions. It is confident that if these leads are followed the welfare system of the 1980s can be materially better than the one we have at present.

## NOTES

### CONCLUSION AND RECOMMENDATIONS

This report has focused on the welfare state in New Zealand. It has examined the welfare state in New Zealand from the 1950s, when it was first developed, to the 1970s, when it was being re-examined. It has also looked at the needs of public policy in health, education, and employment in the 1970s. There has been a growing feeling that the welfare state is becoming more complex and perplexed and that a major debate about future directions is needed. The Council has attempted to set out some of the issues which need to be considered.

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For ease of reference to "Conclusion and Recommendations" it is suggested that the user affix a coloured tag here.

## CONCLUSION AND RECOMMENDATIONS

This report has focused on the options for social policy over the next decade. Recent developments, social as well as economic, have challenged the traditional concept of the welfare state in New Zealand. Until the 1960s, the system as it had developed appeared to meet the needs of public policy in health, education, and welfare. In the 1970s, there has been a growing feeling that it no longer meets adequately the aspirations of a more complex and perplexed society. In the 1980s we can therefore foresee a major debate about future directions in this area of government activity. The Council has attempted to set out some of the issues which must come up for consideration.

One of the main difficulties which we have faced is that none of the issues can be looked at in isolation. We launch this study with the conviction that any plan for New Zealand's future development must recognise the inter-connected nature of the operation of the welfare state, on the one hand, and the economic and social forces which mould the nation's life, on the other. We have, however, selected certain areas and have made these the focus of our analysis of the problems and the prescriptions for change which we are putting forward.

One such area has been the level of public expenditure which it would be prudent to allocate to welfare. In Part I we have proposed in quantitative terms a set of planning guidelines. If adopted, and if applied across the board to all government spending, these guidelines would bring the total cost of public policy down from 43 percent in terms of GDP in 1978-79 to 39 percent by 1989. In its calculations the Council has assumed economic growth at an average annual rate of 3 percent over the next 10 years. If this and other assumptions are borne out, the suggested guidelines would enable a moderate increase in the quantity of the social services delivered by the state. There would in addition be a much greater emphasis on the *effectiveness* of different forms of social spending.

Behind the assumptions lies a certain degree of confidence about the success of future policies. The Council believes that successive governments will concentrate on the dynamic development of those resources which New Zealand has (for example in energy and the products of the land and forests) and which can form the basis of sustained growth during the 1980s. We see such growth as essential if adequate employment opportunities are to be provided for all New Zealanders. If growth were to exceed the 3 percent average which we have assumed for the decade, this would not in any way invalidate the main conclusions we have drawn. What it would do is allow greater room for manoeuvre and a higher degree of confidence in the country's longer-run prospects than exists at present. On the other hand, failure to achieve adequate growth would involve continued high unemployment and recurring balance of payment crises.

The report has thus attempted to put the level of public expenditure into the wider national context and relate it to possible movements in the economy. Outside the social area, however, we have not given any detailed treatment of the allocation, distribution and stabilisation functions of that expenditure. A separate study is currently being prepared by the Council on investment

issues generally, and this will include treatment of some of the major questions which must be looked at in deciding the relative roles of the private and public sectors. Similar issues arise in the social area, for example, in the relative cost-effectiveness of health and education services provided by the public and private sectors respectively. The Council's aim has been to promote public discussion of our main conclusions as soon as possible and it is for this reason that such issues have not been dealt with in this document.

In Part II we have touched on the scope for new techniques of budgetary planning, and elsewhere we have hinted at the opportunities for reform which will be created by technological change. But we have not explored in any depth the arguments for and against a considerable degree of devolution in the formulation and administration of social services. Another topic which links with this theme, and which we have mentioned only briefly, is the concept of "community

## SUMMARY OF RECOMMENDATIONS

For ease of reference we set out below the main recommendations contained in the various chapters:

**Part I** presents the Council's view that government spending should over the next 10 years increase at a lower rate than the economy as a whole. Assuming an average growth rate of 3 percent per annum, the Council **suggests that government spending overall should grow at only 2 percent per annum.**

If this guideline is applied to spending in the welfare area, we find that the built-in growth in the existing benefits structure (e.g., in the number of people who will become elderly) will bring about a 2.7 percent annual increase of expenditure on income maintenance if nothing is done to change the present system. This would leave room for only a 1.6 percent rate of increase in health and education services. There should therefore be an examination of all social security benefits, as well as an emphasis on greater cost-effectiveness in the provision of health and education services.

**Part II** then looks at the aspects of social

development", on which there is an extensive overseas literature as well as a certain amount of activity in New Zealand. We hope, however, that by using the leads in this report and by provoking further examination of these options we will be able to foster a broader approach to the long-term planning of social policies.

We are aware of the fact that our chapters skirt around the one key issue in all areas of public expenditure. This is resource management, or more simply the processes whereby the taxpayer's money becomes allocated to certain programmes and expenditure is then controlled and accounted for. A modern democracy relies upon various mechanisms to carry out the effective monitoring of public sector commitments. The discussion of these mechanisms (and their efficacy) will be an important part of the debate on planning for the 1980s but would require a separate study. The Council is aware of the issues at stake, and hopes to make an effective contribution in this field later.

policy which influence the planning of welfare state activities. It is a common feature that investment in long-term *preventive* work tends to give way to the more urgent pressures of short-term *casualty* work. Moreover the welfare state faces the built-in problem that it is almost impossible to stop doing what has been done before. The Council therefore recommends a major shift in emphasis away from short-term casualty work to longer-term preventive work.

The Council would like to see some new directions in policy. **It recommends less emphasis on the "top down" approach, whereby citizens are simply recipients or clients, and more on the "bottom-up" technique, which recognises the involvement of individuals in the solution of problems of which they are aware.** We see the greater sharing of control over the use of resources (e.g., at the local and community level) as a vital feature of this shift. The aim of this new framework for social policy would be to provide better health, education, and welfare services for all (particularly those in disadvantaged groups) while at the same time avoiding wastage of public moneys.

In **Part III** the Council looks at four areas in which the principles of social policy can be seen in operation.

### A. Health and Health Care

The real growth in health expenditure should be restricted to the rate recommended for government expenditure generally, that is, no more than 2 percent a year. The Council has commented on the need for precise objectives and quantifiable indicators in this field. Even without these, however, the data available in some areas has allowed us to make some recommendations for significant change. We have concentrated on lifestyle and health care.

#### Lifestyle

In order to encourage a more responsible approach to aspects of our lifestyle which are proven causes of accidents and ill health, the Council recommends the following:

(i) Through official action and encouragement of such agencies as the Alcoholic Liquor Advisory Council, education for health should be stepped up. There is a need for greater awareness of the effects of drugs of all kinds and of the importance of diet and physical fitness.

(ii) As part of this effort, advertising and other forms of promotion of alcohol and tobacco should be made non-deductible for income tax purposes. In order that this change should not be to the detriment of those sporting and other non-profit making bodies that currently benefit from such advertising and other promotional expenditure, the Council recommends that these bodies be compensated by government by increased grants through the Ministry for Recreation and Sport. Regulations and practices governing the sale of liquor should further be revised with a view to increasing the availability of food and alternative beverages in premises selling liquor. This should be accompanied by more stringent enforcement of rules governing drinking and driving.

(iii) **The Council recommends that taxes on alcohol and tobacco be increased.** The higher prices would be a means of recouping some of the costs attributable to their use, and would also

discourage their consumption. **We propose a 25 percent retail price increase as soon as practicable.** The additional tax revenue for a 25 percent increase is estimated at \$140-\$170 million a year and the effect on the consumers price index at about 2 percent.

**The Council also recommends that tax on alcoholic liquor be based as far as practicable on alcohol content,** regardless of whether the commodity is beer, wine, or spirits.

**The Council further considers that the higher taxes should be based on value rather than volume.** This means that in future tax would increase as the before-tax price rises (whereas at present the tax remains unchanged). Similarly, the Council recommends that such movement in indirect taxes be excluded from any movements in prices that are taken into account in the fixing of wages, salaries, and other private income. This recommendation is of more general significance if the Government intends to change the balance of tax revenue from direct to indirect sources. The question of whether such an additional tax should be levied by regional or local authorities and the extent to which revenue from increased taxes should be used for health services should be considered. The Council does not favour tying it directly to health expenditure.

#### Community Care

The general thrust of the Council's recommendations is that **as far as possible care should centre on the home and the community, not the hospital. The share of health expenditure going into the community should be increased,** not reduced as has been the trend until recently. On the evidence of availability and occupancy of hospital beds, the Council believes that new hospitals should be built only in exceptional circumstances, and proposals for institutional expansion should be very critically scrutinised.

#### Planning and Organisation

Improved planning of health care is needed at two levels—national and regional—and the Council has suggested a two-step approach to its achievement. **In the shorter term we have proposed techniques for improving the way in which hospital boards are funded:**

1. Resources should be allocated to hospital boards under two headings: "national health services" and "regional health services".



(a) Those functions which are performed by only a limited number of hospitals ("national health services") should be separated from other standard functions and funded accordingly. Such functions might include cardio-thoracic surgery, neuro-surgery, particular teaching services and the like.

(b) The remaining functions ("regional health services") should be funded on the basis of population factors and other specified criteria. The aim should be to develop a block grant system of funding which would however allow flexibility for local variation and innovation.

2. The containment of operational expenditure to within the single financial year should be modified to encourage long-term accountability and initiative.

(a) To the extent that a hospital exceeds its annual allocation, the excess amount should, within prescribed limits, automatically be deducted from the following year's block grant;

(b) To the extent that a hospital board makes savings attributable to management initiatives in any one year, provision should be made to enable a specified proportion of those savings—say a half—to be carried forward to the following year.

*In the medium term the Council believes there should be a reorganisation of hospital boards into regional health authorities.* Such reorganisation would facilitate a shift of resources into community and home health care. Attempts are already being made to make the delivery of health care less institution-oriented and to devolve more responsibility to the immediate community. The Council considers that efforts along these lines should be speeded up and more resources made available for this purpose.

#### Technology and Cost-effectiveness

Research in New Zealand and overseas has shown that much that is done in the health care field is either ineffective or could be done equally effectively at much lower cost. This is particularly important in relation to the introduction of new, high-technology equipment. Proposals to buy such expensive equipment, as well as the effectiveness of existing and new types of medical treatment, should be subject to more systematic and searching scrutiny to ensure that the costs will

be justified by the benefits. *The Council recommends that a multi-disciplinary team, outside the public sector and serviced by a full-time director, be established to advise the Minister of Health on all proposals in excess of say \$250,000.* Such an arrangement would replace the ad hoc evaluations presently done by various committees of individuals.

#### Manpower Planning

The shift to community health services, changing technology, and greater emphasis on preventive medicine will increase the importance of many types of professionals in total health manpower. Apart from clinical work, the role of the doctor will increasingly become that of a member of a multi-disciplinary team. In addition, a good deal of work now being done by doctors would in future be carried out by other health workers. *The Council accordingly recommends the development of systematic planning for the recruiting and continuing education of all categories of health workers, not only medical practitioners.*

The Council has looked in some detail at medical manpower planning because of the major impact on health expenditure of doctors and because of the long lead time before changes can become effective. The number of New Zealand graduates in medicine has risen from about 100 a year in 1970 to 200 in 1976 and is expected to reach 320 a year from 1981 onward. This domestic growth has been aided by a net immigration gain of doctors of more than 100 a year over the same period. Given that our population increase is expected to be modest, it must be concluded that the projected increase in doctor numbers will lead to a large over-supply of doctors. At current trends, expenditure created by new doctors will be well in excess of the Council's guidelines for all health expenditure of not more than 2 percent. Without immediate action to slow down the increase in doctor numbers, there will be no scope to divert resources to non-doctor related health services.

In light of these facts and having regard to the evidence which suggests that, beyond a certain point, an increase in doctor numbers does not necessarily bring about improved health care, the Council considers that further significant increases in the number of doctors would not be justified, because they would

not be cost-effective. *The Council recommends that the emerging surplus of doctors be dealt with in the following two ways:*

- *By reducing intake of medical students by 25 percent.* Any spare capacity should be used for post-graduate training and for training of people who although not doctors would work in the health field.
- *By limiting immigration of foreign doctors.*

Also, incentives should be devised to improve the distribution of doctors so that in future serious shortages of doctors in particular geographical areas and for particular specialist types can be avoided.

#### B. Education

Over the next decade, with a declining number of young people to be educated, it should be possible to continue to make improvements in the quality of educational services, with educational expenditures by the state rising less rapidly than both GDP and government spending as a whole. Considerable emphasis should be placed on strengthening the capacity of pre-school institutions and primary schools to diagnose and deal with children's difficulties early, in co-operation with parents and health and social workers.

#### Early Childhood Education.

*The Government should continue to foster improved access to early childhood education, bringing places in playcentres and kindergartens up from 50 percent in 1978 to at least 70 percent of the 3- to 4-year-old population during the decade.* It should help meet the increased demand for child care centres which we expect, by selected assistance in areas of special need. *Given the need for educational programmes as well as custodial supervision in such centres, the Department of Education should assume responsibility for overseeing this development.*

#### Primary and Intermediate Schools

At existing staffing ratios, requirements for staff will diminish appreciably as rolls fall during the decade. The opportunity should be taken to improve staffing, not by an across-the-board reduction of class sizes, but by

recruitment, training, and retraining of staff to deal with special needs (e.g., of children from differing cultures, gifted children, and children with specific learning difficulties) and to develop closer relationships with parents and others in the community.

Capital expenditure should be confined to providing for the expansion which will occur in some areas (even while rolls generally are falling) and for modification or replacement of unsatisfactory premises. In areas where there are redundant facilities the decision on what to close should be made after wide consultation in the community.

#### Secondary Schools

As with primary schools, we recommend selective improvement in secondary school staffing to strengthen the schools' capacity to develop curricula which will interest and extend a higher proportion of pupils, catering not only for those of academic ability but also for those whose main talents lie in other directions; to improve programmes of retraining and to strengthen links with the community. There should be greater emphasis on support and ancillary staff and voluntary assistance.

In order to ease the transition from school to work, there should be more opportunities for work experience and part-time education for some pupils. The sense of failure and disillusionment with education felt by many school leavers is accentuated by the very high failure rates built in to some of the present School Certificate examinations. *We recommend a thorough review to find a suitable replacement for the present School Certificate system, as part of a more general reappraisal of techniques of assessment.*

#### Teacher Training

*Given the expected decrease in primary school rolls, and the likely availability of previously-trained teachers after a period of absence from teaching, the Council recommends a further reduction in the first-year intakes to primary teachers' colleges from 1600 a year as at present to no more than 1400 by 1981.*

The effects on the colleges of such a reduction would be offset to some extent if they were given a more active role in the retraining and continuing education of teachers. Nevertheless, the Council questions whether the continued operation of all the existing colleges is justified. The most positive use of some colleges would be to seek a sharing of their staff and facilities with other institutions, notably technical institutes.

The Council considers it important that all teacher training services should include a growing proportion of members with experience outside the school system or from Maori and Pacific Island backgrounds. We also recommend flexibility in determining the length and content of training required for different entrants.

#### Mobility of Staff

The Council recommends that both controlling authorities and individual organisations should investigate means of increasing opportunities for transfers of staff within the education system. Among the steps necessary are that the obstacles presented by existing salary structures be diminished; that there be more possibility of transfer on secondment or extended leave without pay; that opportunities for able young people to gain entry or promotion be enhanced by improving the options for some older people to retire early on superannuation.

#### Tertiary and Continuing Education

The Council believes that high priority should be given to the expansion of a diversified system which will assist people to continue learning and improve their skills throughout their lives. The Council recommends that particular importance be attached to:

- Flexible attitudes to entry requirements, especially for those who have elected to defer further education;
- The provision of bridging courses to equip older and less qualified students;
- Generosity by institutions in giving credit for work done elsewhere;
- Resistance to the upgrading of educational requirements for entry to particular occupations;
- Co-operation among institutions in an endeavour to avoid unnecessary duplication of costly courses;

- Recognition of the value and importance of self-directed, vocational, and community learning activities outside the formal educational institutions;
- The development of an effective system of information for learners through libraries, museums, art galleries, and other public facilities, and through the media, utilising recent developments in computer and communications technology where benefits justify the costs;
- Improved guidance for learners on the various facilities available.

**The Council recommends the planned development of training and retraining programmes as a vital aspect of the strategy for economic recovery which New Zealand requires during the next decade.** A more determined effort is needed by unions and employers, working through the machinery established by the Vocational Training Council to devise more flexible training and retraining systems.

#### Universities

While the Planning Council favours the maintenance of a strong university system, it cannot agree that expenditure on universities should increase as substantially as the implementation of past policies would require if rolls increased as projected. **The Council recommends that the prospective rate of growth in university expenditure be reduced.**

In order to sustain the quality of teaching and research with the present staffing ratios, universities will need to intensify their efforts to reduce the range of courses offered in particular departments, to avoid wasteful duplication of courses, to retrain staff and gradually disestablish posts in departments with unusually favourable staffing positions.

The Council has recommended consideration of four approaches for curbing the growth of university rolls. These, in declining order of priority include reduced access to particular courses; possible restriction on the total numbers admitted; more demanding criteria for university entrance; and increased fees to those not eligible for full assistance.

#### Financial Assistance to Students

Reconsideration of the number and value of university bursaries, scholarships and fees should be part of a more general review of charges and of financial assistance to students in all branches of tertiary and continuing education. There are some obvious anomalies in the present system and *the*

**Council recommends that the allowances paid to those entering teachers' training colleges in future should be brought into line with those accorded to other students receiving the standard tertiary bursary.** More generally, the Council recommends that there be a considered assessment of what contribution it is reasonable to ask taxpayers to make towards the cost of tertiary and continuing education from which students and their employers, as well as society generally, will benefit. The Council recommends that particular attention be given to such questions as:

- Within the financial resources available, what criteria should govern the balance between assistance to university and teachers' college students and assistance to other learners?
- For how long should assistance be available to particular individuals, e.g., should entitlements to grants be limited to, say, 3 years?
- Should some of the assistance be on a loan or suspensory loan basis, rather than purely by grants?
- On what basis should supplementary assistance above the standard entitlements be extended to able students with special needs?

#### C. Law and Order

The Council notes that there is wide consensus on the need for improvements to New Zealand's legislative process. **We recommend specifically that Parliament and those responsible for drawing up the rules governing the process of law give priority to:**

- The simplification of the body of laws**—not only in terms of language and procedures, but also of the complexity of procedures which may apply in certain situations;
- A reduction in the total number of statutes and regulations;**
- The elimination of outdated laws passed to deal with particular problems which may no longer exist.**

We also consider it necessary that qualified staff be specially designated to carry out (i) to (iii) above, and suggest that progress be reported to Parliament in a special section of the annual report of the Department of Justice. The Council would like to see more priority given to research into the appropriate role of the law in our society and the possible "decriminalisation" of certain offences where there is no victim.

The present legal system leaves the Police with the tasks both of detection and apprehension, and subsequent prosecution of offenders. These functions are separate and in some other systems, such as Scotland and the Netherlands, they are treated as such. **The Council considers that the combination of these functions places too heavy a responsibility on our police services and recommends that the possibility of their separation be studied by the Department of Justice.**

In line with the preventive approach, the Council believes there should be an urgent examination of non-custodial sanctions which would still be effective in a situation of persistent unemployment. Custodial sanctions should be used only in cases when there is no other way to handle offenders and ensure that society remains protected. Plans for the further construction of prisons should be guided by this view.

Under present administrative arrangements, the courts are required to process an unduly large variety and volume of cases. The burden on the court system should be reduced by dealing with offenders by other means where appropriate, e.g., by "diversion" as recommended by the Royal Commission on the Courts. Specifically we recommend:

- **Removing minor traffic and other infringements or disputes to alternative tribunals.** These alternatives would be more relaxed in format, as suggested by the Royal Commission on the Courts;
- **Greater recourse to automatic fining.**

The Council believes that the joint effort of the citizen on the one hand and the institutions of law and order on the other should be reinforced by:

- Increasing the involvement of the police in the community;
- Spreading awareness among the community of what they as a community can do to discourage certain offences, including both "white collar" crime (e.g., custom evasion) and those which sometimes indicate lack of social supports (e.g., truancy, vagrancy, petty theft);
- Stimulating wider public discussion and understanding of the roles and activities of the principal institutions—the legislature, legal profession, courts, Police.

## D. Income Maintenance

In this chapter the Council has looked at the extent to which the various benefits achieve society's objectives. We have some suggestions which are quite specific and no doubt controversial. In our view, some adjustments to income maintenance policies are required if an adequate and equitable welfare system is to be sustained.

### Benefit Rates

*The Council believes that variations in levels of income maintenance should be based on beneficiaries' needs and not, as at present, on the historical origins of the scheme under which the beneficiary establishes entitlement. There is no justification for differentiating between the level of benefit paid, for example, to the sick and the elderly.*

In addition, all benefits should be—

- **Taxable income in the hands of the beneficiary;**
- **Related to the after-tax equivalent of the appropriate wage measure. This means that the after-tax income of, for example, national superannuitants, would be related to the after-tax income of the person on the average ordinary-time weekly wage.**

These measures are desirable in order to preserve relativity with wage earners and to avoid distortions which would otherwise arise through differential tax treatment. Both these problems can be seen with our present income maintenance schemes, as the following figures on weekly income after tax for married people (assuming no other income) show:

	\$
Average weekly earnings	111.17
National superannuitants	... 96.58
Builder's labourer	... 94.71
Social security beneficiary	... 81.28

The Council recommends that a number of changes be made, some short term and some longer term.

#### (a) Short-term changes:

- (i) **The basis for fixing National Superannuation should be shifted from the average wage before tax to the average wage after tax.** This would be done by expressing the net married rate of National Superannuation as 80 percent of the net average wage and

then grossing up superannuation payments by the amount required to meet standard rate PAYE deductions. The effect of this would be that the disposable income of married superannuitants would always be 80 percent of that of the average wage earner (assuming neither has additional income). Under the present system, the before-tax income of the superannuitant has remained at 80 percent of the before-tax average wage, but the after-tax income has risen to 87 percent of the after-tax average wage.

- (ii) **Income-tested benefits should be related to after-tax wages.** In order to preserve relativity both with wages and with National Superannuation, the average ordinary-time wage after deduction of tax at the married rate should be the reference point for benefits.

- (iii) **Income-tested benefits should be made taxable.** As with National Superannuation this would be done by striking the net rate of benefit and then grossing it up by the amount required to pay the standard rate of PAYE deduction. This would serve the purpose of achieving equity with wage-earners, particularly in respect of short-term benefits or in the event of any change in the tax structure.

#### (b) Longer-term changes:

**In the longer term it is considered that all income maintenance schemes should be based on a standard benefit which would be taxable.** Provision would also have to be made to meet special needs. Establishment of such a standard benefit should be preceded by adequate research into the needs of beneficiaries.

In terms of government expenditure it is estimated that basing National Superannuation on the average wage after tax, as suggested above, would save approximately \$108 million before tax and \$86 million after tax on an annual basis at present rates.

### The Sick and Disabled

At present persons with virtually identical physical conditions receive different financial support depending on whether their condition arose through an accident or through illness.

The Council recommends that in order to deal with this problem a combined scheme covering both categories of need be investigated.

Major features of a combined scheme might be:

- (i) There would be no benefit for a brief initial period;
- (ii) On extension of incapacity beyond this period, earnings-related benefits would be paid only for a limited period, such as 3 months;
- (iii) Benefits would be paid at a standard rate for the remainder of the period of incapacity. Eligibility would depend on a means test, and a system of abatement would have to operate;
- (iv) Expenses for accident victims and the sick would be treated on the same basis;
- (v) Rehabilitation schemes now available to accident victims would be available on the same terms to the sick.

Given the fact that the creation of such a scheme would involve major changes to present arrangements it will require a good deal of detailed investigation. An opportunity would need to be given for interested groups and individuals to make representations to either a commission of inquiry or a select committee of the House.

### The Unemployed

There is a case for looking at the position of the unemployed person, who would prefer to work, in the same light as the sick person who would prefer to be back at work. If the combined scheme for the sick and disabled recommended above were introduced, the unemployed would be at a disadvantage unless similar changes were made in provision for them. There are however many special problems concerning unemployment benefits. Because of the complexity of the issues involved, the Council is to carry out during 1979 a major study dealing with the whole area of employment, training, and unemployment.

### Elderly People

For reasons stated elsewhere, the Council is firmly of the view that some reduction in the total being paid out under National Superannuation is an essential element in any strategy to contain the growth of public expenditure while effectively meeting areas of real welfare need. However, any changes to National

Superannuation must be so designed as to ensure that the needs of the elderly are adequately met.

**After considering the various options, the Council has concluded that the most desirable move at this stage would be to shift progressively from the use of age 60 as the age of eligibility. The Council recommends the initial adoption of age 62. This should be introduced in two stages, with a rise to age 61 as soon as possible and an increase to age 62 two years later.**

The annual savings of such a change would be \$76 million gross or \$43 million net. Some Council members believe that further adjustments should be made as soon as possible to carry the age of universal eligibility from 62 to 65. The annual saving of raising the age to 65 would be \$151 million gross or \$86 million net. The Council would envisage payment of an income-tested retirement benefit to those who choose to leave the workforce (or have to leave) at age 60 until such time as they are eligible for National Superannuation.

In conjunction with this change, the Council believes there should be an early decision to adopt the after-tax basis for calculating the relativity of National Superannuation rates to the average ordinary-time weekly wage (explained above).

### Caring for Children

The Council considers that a serious difficulty now arising in the income maintenance field is that of dependent children and those who care for them.

There is mounting evidence to indicate that, as a society, New Zealand makes inadequate provision to ensure that a minimum standard of support is available for dependent children. In a previous Council study ("Income Maintenance and Taxation—Some Options for Reform") there was an examination of the relative income requirements of different family units. One of the suggestions was the adoption of a system of "income equivalences". This would allow the calculation of the different income levels required by different family units, from which it would be possible to ensure that all could achieve the same standard of living. "Equivalences" are calculated according to the number and ages of members of a family unit. For example the study indicated that a couple with two children require approximately one and one-half times the income of a couple with no children.

Provision of appropriate assistance for dependent children and those who care for them involves a large amount of public expenditure and raises difficult problems of equity as between beneficiaries and wage earners. They arise not only in terms of relative incomes but also in terms of provisions which would be necessary if there were to be a real prospect of the majority of beneficiaries re-entering the work force whilst their children are still dependent. For these reasons the Council sees this portion of the discussion of income maintenance as raising

questions for future consideration rather than being the basis for immediate recommendations.

With income maintenance, as with other elements of the welfare state, it is timely to review the established measures of assistance. We must ensure that the taxpayer's money is being used as effectively as possible, that burdens are equitably shared and that the measures are in fact contributing to the people's welfare in the manner which was intended when they were introduced.

## POPULATION CHANGE: PROJECTIONS AND FORECASTS

Population growth is expected to be low over the next decade. This will have major implications for public expenditure patterns, especially in areas of social policy. A continuing decline in fertility combined with expected net migration losses until 1982 or 1983 indicate the possibility of a declining population in the short term. Although some growth is expected in the latter part of the 1980s, the population outlook for the decade as a whole would seem to offer possibilities for substantial savings in several areas of public expenditure.

At the same time, it needs to be borne in mind that national aggregate population trends are not the only determinants of pressure on public expenditure. Access to health, welfare and education services, age composition, income levels, internal and external migration, ethnic characteristics and differential growth rates can all exercise demand on different sectors and in different parts of the country. Demographic changes are, moreover, often a reflection of wider social changes and cannot be studied in isolation. Increased participation of women in the work force, for example, is giving rise to new requirements in child care and after school care and at the same time creating new demands for other community services. The changing emphasis in household formation, with more than 30 percent of all households now consisting of groupings other than the traditional nuclear family, has implications not only for the provision of housing but also in other areas of social expenditure; the growing number of single person and one parent households, for example, are creating new demands for income maintenance. The implications of demographic trends, therefore, are widespread, and it is important not to view the national trend too narrowly.

Nevertheless it is essential that likely population change is taken into account in medium-term planning. Population projections offer some guidelines. As the Department of Statistics has pointed out, such "projections are not strictly forecasts, but state the future population growth which would occur if the stated assumptions apply over the projection period".<sup>1</sup> For the purpose of this exercise, the Council has drawn on recent projections of population and the labour force prepared by the Department of Statistics,<sup>2</sup> and also on labour force forecasts prepared by the Department of Labour.<sup>3</sup> None

of these projections or forecasts can be regarded as showing the exact paths the New Zealand labour force and population will travel during the next decade. What they do show are the likely growth and changes in age structure which will occur if certain assumptions on fertility, migration, mortality, and labour force participation are borne out. These assumptions are explained in detail in the official publications referred to above; they are summarised briefly below.

### Assumptions used for Department of Statistics projections

(Unless otherwise stated these are the same assumptions used for the Department of Labour's forecasts.)

#### Base Population

This was the estimated total New Zealand population by sex and single-year-of-age at 31 March 1978, obtained by updating final age-and-sex specific data from the 1976 Census of Population and Dwellings.

#### Base Labour Force

Again, the base was 31 March 1978, and the estimated labour force for this date was calculated by extrapolating trends in participation rates for each sex and 5-year-age group over the period 1961 to 1976.

<sup>1</sup> See *Technical Appendix, New Zealand Population and Labour Force Projections 1979-2011 (Base: 31 March 1978)*, Department of Statistics, December 1978.

<sup>2</sup> *New Zealand Population and Labour Force Projections 1979-2011 (Base: 31 March 1978)*, Department of Statistics, 1978. These are published in *Quarterly Population Bulletin, December 1978*, or may be obtained from the Department of Statistics Demographic Specialist Studies Section, Christchurch.

<sup>3</sup> Further information on these forecasts may be obtained from the Department of Labour, Wellington. A paper describing the forecast methodology is soon to be published.



## Labour Force

Details of the Department of Statistics projections and Department of Labour forecasts of labour force growth during the period to 1991 are in Table A5. The two sets of statistics give similar totals up to 1986 but beyond this show some divergence. They also differ in the participation rates they assume for the 15-19 and over 60 age groups, and for the female labour force (see Table A2). The Department of Labour figures have attempted to recognise social change, reflected for example in an increasing educational commitment in the 15-19 year old female age groups (and thus a lower work participation rate), in the continuing growth of the female component of the work force, and in earlier retirement. It should be noted that the forecasting of participation rates is complex; not only social and demographic but also economic factors will influence these. The "discouraged worker effect", for example, will

affect the size and composition of the workforce, particularly as far as the female component is concerned.

Overall the Department of Labour forecasts indicate a rate of growth in the labour force of between 1.8 percent and 2 percent a year to 1991. The Department of Statistics projections show a rather lower increase—around 1.5 percent.

The regional population projections indicate a continuation of growth in the northern part of New Zealand, to some extent at the expense of the southern part of the South Island. Although regional labour force projections have not been produced, these wider population movements which are expected to occur will need to be taken into account in the general labour market policies and also in regional aspects of training, education and investment policies.

TABLE A3

### PROJECTED TOTAL NEW ZEALAND POPULATION 1976-1991<sup>1</sup>

#### A. "LOW" FERTILITY ASSUMPTION

Age Group	N.Z. Census of Population and Dwellings 23 March 1976	As at 31 March 1981 Migration Assumption			As at 31 March 1986 Migration Assumption			As at 31 March 1991 Migration Assumption		
		"Low"	"Medium"	"High"	"Low"	"Medium"	"High"	"Low"	"Medium"	"High"
		Thousand			Thousand			Thousand		
0-14	928 205	829.5	833.0	836.6	739.1	749.0	758.7	691.0	703.9	716.7
15-59	1 794 443	1 855.1	1 868.6	1 882.2	1 980.1	2 005.3	2 029.7	2 111.7	2 137.5	2 162.2
60+	406 735	432.0	432.5	433.0	463.6	464.2	464.6	489.1	489.7	490.2
Total <sup>2</sup>	3 129 383	3 116.0	3 134.0	3 152.0	3 183.0	3 218.0	3 253.0	3 292.0	3 331.0	3 369.0

#### B. "MEDIUM" FERTILITY ASSUMPTION

Age Group	N.Z. Census of Population and Dwellings 23 March 1976	As at 31 March 1981 Migration Assumption			As at 31 March 1986 Migration Assumption			As at 31 March 1991 Migration Assumption		
		"Low"	"Medium"	"High"	"Low"	"Medium"	"High"	"Low"	"Medium"	"High"
		Thousand			Thousand			Thousand		
0-14	928 205	847.0	850.7	854.4	793.1	803.7	814.3	784.1	798.6	812.6
15-59	1 794 443	1 855.1	1 868.6	1 882.2	1 980.1	2 005.3	2 029.7	2 111.7	2 137.5	2 162.2
60+	406 735	432.0	432.5	433.0	463.6	464.2	464.6	489.1	489.7	490.2
Total <sup>2</sup>	3 129 383	3 134.0	3 152.0	3 170.0	3 237.0	3 273.0	3 309.0	3 385.0	3 425.0	3 465.0

<sup>1</sup>Sources: New Zealand Census of Population and Dwellings 1976; New Zealand Population and Labour Force Projections 1979-2011 (Base: 31 March 1978); Department of Statistics, December 1978. For details of fertility and migration assumptions, see Appendix I.

<sup>2</sup>Because of rounding, figures may not add exactly to totals.

TABLE A4

### PROJECTED POPULATION CHANGE 1976-1991<sup>1</sup>

NORTH AND SOUTH ISLANDS AND SELECTED STATISTICAL DIVISIONS<sup>2</sup>

(Rounded Population as at 31 March)

Area	1976 (Base)	1981		1986		1991	
		"Low" Fertility Migration	"Medium" Fertility Migration	"Low" Fertility Migration	"Medium" Fertility Migration	"Low" Fertility Migration	"Medium" Fertility Migration
		Thousand		Thousand		Thousand	
Auckland Statistical Division	797 000	806 000	823 000	849 000	888 000	891 000	950 000
Hamilton Statistical Division	154 000	159 000	161 000	168 000	174 000	177 000	187 000
Napier/Hastings Statistical Division	109 000	112 000	113 000	118 000	122 000	125 000	134 000
Palmerston North Statistical Division	89 000	88 000	89 000	91 000	95 000	95 000	99 000
Wellington Statistical Division	350 000	346 000	353 000	355 000	371 000	363 000	389 000
North Island	2 268 000	2 264 000	2 303 000	2 334 000	2 421 000	2 414 000	2 553 000
Christchurch Statistical Division	326 000	324 000	328 000	335 000	347 000	345 000	365 000
Dunedin Statistical Division	121 000	112 000	116 000	110 000	116 000	108 000	116 000
South Island	861 000	859 000	867 000	868 000	888 000	877 000	912 000

<sup>1</sup>Source: Department of Statistics (unpublished projections). For details of assumptions please refer to Demographic Specialist Studies Section, Department of Statistics, Christchurch.

<sup>2</sup>Note: Since not all statistical divisions are included, Island population totals include data for other statistical divisions of New Zealand apart from those listed.

TABLE A5  
LABOUR FORCE CHANGES 1966-1991  
(Thousands)

Age Group	Census 1966			Census 1971			Census 1976			As at 31 March 1981			As at 31 March 1988			As at 31 March 1991		
	...	...	...	...	...	...	...	...	...	"Low" Fertility		"Medium" Fertility		"Low" Fertility		"Medium" Fertility		
										"Migration"		"Migration"		"Migration"		"Migration"		
										A <sup>1</sup>	B <sup>2</sup>	A	B	A	B	A	B	A
Under 20	78.7	75.8	86.3	91.1	88.2	91.2	88.3	83.8	78.4	84.2	78.8	80.8	77.9	81.0	78.1			
20-24	91.2	108.7	120.0	124.1	123.3	126.0	125.2	142.2	140.4	143.8	141.9	139.4	138.8	140.0	139.3			
25-34	159.1	175.6	221.8	227.2	227.4	229.6	229.8	240.1	240.5	247.0	247.3	285.2	286.3	290.7	291.9			
34-44	164.5	158.2	165.0	180.8	181.0	181.3	181.6	208.8	209.6	210.7	211.2	223.7	224.9	227.7	228.9			
45-59	194.4	206.0	217.4	215.2	216.5	215.4	216.6	218.0	218.9	218.8	219.7	230.4	231.6	231.8	233.0			
60-64	35.3	38.5	35.3	27.4	32.1	27.5	32.2	30.9	34.0	31.0	34.1	32.0	35.1	32.0	35.2			
65+	22.5	22.1	19.3	13.7	17.4	13.7	17.4	9.2	14.0	9.2	14.0	10.0	15.2	10.0	15.3			
Total <sup>4</sup>	745.6	785.0	865.1	880.0	886.0	885.0	891.0	933.0	936.0	945.0	947.0	1 001.0	1 010.0	1 013.0	1 022.0			
Under 20	74.4	72.6	75.3	70.9	73.2	71.3	73.6	59.4	63.8	59.7	64.2	58.8	63.2	59.0	63.4			
20-24	49.3	63.4	75.2	76.5	76.7	78.9	79.2	93.6	95.2	94.9	96.5	96.3	96.4	96.8	96.9			
25-34	36.9	51.7	79.5	94.1	96.1	94.9	97.0	106.4	109.4	109.4	112.6	128.1	123.8	131.9	127.3			
35-44	46.6	57.2	75.0	95.3	95.9	95.8	96.3	124.7	128.1	125.9	129.2	159.5	142.9	161.3	144.5			
45-59	61.3	75.1	88.6	102.2	95.0	102.4	95.3	124.5	108.3	125.3	108.9	147.0	117.2	148.1	117.9			
60-64	7.3	9.0	9.2	8.0	9.0	8.0	9.0	7.7	9.3	7.7	9.3	7.1	9.4	7.1	9.4			
65+	4.7	4.9	4.4	3.7	4.5	3.7	4.5	3.4	4.2	3.4	4.2	2.8	4.5	2.8	4.5			
Total	280.4	333.9	407.2	451.0	450.0	455.0	455.0	520.0	518.0	526.0	525.0	600.0	557.0	607.0	564.0			
Total labour force <sup>4</sup>	1 026.0	1 118.8	1 272.3	1 331.0	1 336.0	1 340.0	1 346.0	1 453.0	1 454.0	1 471.0	1 472.0	1 601.0	1 567.0	1 620.0	1 586.0			

<sup>1</sup>A: Department of Labour forecast.

<sup>2</sup>B: New Zealand Population and Labour Force Projections 1979-2011 (Base: 31 March, 1978), Department of Statistics.

<sup>3</sup>For details of assumptions used, refer to these sources.

<sup>4</sup>Because of rounding, totals may not add exactly.

## BACKGROUND TO NEW ZEALAND'S PRESENT SYSTEM OF INCOME MAINTENANCE

In 1973 the Social Development Council proposed a set of Social Objectives for New Zealand which included—

“To share resources fairly by ensuring each person has:

1. The opportunity of a material standard of living at a level which enables him or her to enjoy a sense of belonging to and participating in the community.
2. The opportunity to own and enjoy property and possessions.
3. Access to the knowledge and skills which lead to the development of the individual and the well-being of the community.
4. Vocational opportunities which are satisfying and within his or her capabilities.
5. Ready access to leisure-time activities.
6. Ready access to the community social welfare services.”

These objectives provide a useful framework for more specific objectives for income maintenance schemes. They can be seen as giving recognition to the need for an adequate income, to treating such an income as a right and to acknowledging that more than money is required in order to live a satisfying life. These objectives could guide not only the setting of benefit levels but also the terms of eligibility access to rehabilitation and re-entry into the work force.

### Objectives of Present Income Maintenance Programmes

To achieve consistency in income maintenance programmes, it is desirable (though not essential) to have a common set of values or objectives. Present inconsistencies among our three schemes—social security, accident compensation, and National Superannuation—most likely arise from the fact that each is based on a different philosophy. The philosophies underlying social security and accident compensation have been clearly enunciated by the relevant royal commissions (the McCarthy Commission 1972 and the Woodhouse Commission 1967) but there is less clarity in relation to National Superannuation.

#### 1. Social Security

The 1938 Social Security Act set out its

intentions in the preamble, “to provide for the payment of... benefits designed to safeguard the people of New Zealand from disabilities arising from age, sickness, widowhood, orphanhood, unemployment, or other exceptional conditions...”. The select committee reporting on the proposed legislation referred to the fact that New Zealand had already provided pensions “as nearly sufficient as possible for the normal needs of the beneficiaries” and believed that the social security scheme would be “the embodiment of the public conscience as to the community’s responsibilities for those who have been deprived of the means of fending for themselves”. The implications of these statements are that income maintenance payments should be at a level which gives beneficiaries adequate spending power and that this should be provided by the community for every person in need.

An analysis of possible objectives of social security policy was presented in the report of the McCarthy Commission of 1972. The report said there seem to be four choices:

- (a) To maintain life and health, i.e., to have access to the essentials for life. The goal is “subsistence”.
- (b) To belong and participate, i.e., to be able to meet and mix with other New Zealanders as a full member of the community. The goal is “belonging”.

- (c) To be equal in economic well-being, i.e., to have substantially the same standard of living as all other New Zealanders. The goal is "equality".
- (d) To have continuity of economic status, i.e., to be able to maintain the same individual standard of living as that enjoyed in the past. The goal is "continuity".

The Royal Commission chose option (b) and accordingly recommended a level of benefit (80 percent of the wage of a builder's labourer) which in its view would enable beneficiaries to experience a sense of belonging. Option (a) was discarded by the Royal Commission as being inadequate for New Zealand in the 1970s. Option (c) was considered not to reflect a widely held value in New Zealand; and of option (d) the Commission said, "However desirable it may be for individuals to maintain their customary earnings and status, the community is not, and should not become, responsible for securing this status".

The Royal Commission on Social Security concluded that an essential principle on which our social welfare system should be based is that "The community is responsible for giving dependent people a standard of living consistent with human dignity and approaching that enjoyed by the majority, irrespective of the cause of dependency".

## 2. Accident Compensation

The principles underlying the accident compensation scheme were clearly enunciated in the Woodhouse Report 1967 as community responsibility, comprehensive entitlement, complete rehabilitation, real compensation and administrative efficiency.

In spelling out these principles the Woodhouse Commission stated that "the community must protect all citizens . . . from the burden of sudden individual losses when their ability to contribute to the general welfare by their work has been interrupted by physical incapacity". The Commission considered that if compensation were to be the aim, as opposed to the aim of merely meeting needs, this could be achieved only by income-related benefits for the whole period of incapacity. Compensation requires "a realistic assessment of actual loss, both physical and economic, followed by a shifting of that loss on a suitably generous basis". The Commis-

sion pointed out that the losses of individuals vary greatly and so do individual commitments. Therefore to support all people at the same level would cause some people to suffer more than others. The Commission stressed that the "purpose of the scheme is not to provide merely for need but to shift a fair share of the burden suddenly falling upon individuals . . .". Implicitly the burden is shifted on to industry and thence on to consumers.

## 3. National Superannuation

The principles underlying this scheme can be found in the National Party's policy statement prior to the 1975 election. There the belief was affirmed that "a superannuation which ensures a comfortable standard of living for all New Zealanders over 60 years of age . . . should be available as of right" and that it "should provide a retirement income that is realistic in its relationship to contemporary wage rates and cost of living". "Benefits under the new scheme will be available as of right and will not be subject to any means test or income test."

The emphasis in this scheme is on rights, based on past contributions to society in the form of citizenship, productivity, or tax payments. The old are thus given a different status from other social welfare recipients.

## 4. Support for Families With a Market Income

The Royal Commission on Social Security gave consideration to whether income transfers from non-parents to parents should be concentrated on lower income families but recommended against this. Their conclusion was "the question of community assistance to families has to be weighed as an investment in people as well as a means of alleviating poverty or meeting needs. A major consideration is to ensure that the costs of rearing children at all levels of income are equitably spread throughout the community."

This objective is reflected in the payment of a universal family benefit. When announcing the last increase in family benefit in the 1972 Budget the Prime Minister said, "The bringing up of children is a significant financial burden for which the wage system has no regard. The universal family benefit is a simple and effective way of helping parents to meet these costs." Since that time the money value of the benefit has been significantly eroded.

In the Budget of 1976 the objective seemed to have shifted from one of helping all parents to one of helping low-income parents. "The

Government is keenly aware of the difficulties faced by young families on low incomes . . . We have decided to give a substantial measure of tax relief to such families." The 1978 Budget enunciated as one of its goals—"an improvement in the living standards of the low and single-income family

with children". This now takes precedence over sharing the costs of rearing children at all income levels and the principle objective may be viewed either as meeting need or as providing income support, albeit indirectly, for parents who are not in the labour force because they are caring for young children.

## Appendix 3

### THE SETTING OF BENEFIT RATES

There was considerable logic in the recommendation of the Royal Commission on Social Security that benefit levels should be indexed to the lower quartile of adult earnings for, by definition, 25 percent of earners receive less than that amount so the level could be considered to be one which it is possible to live on and have a sense of belonging in the community, and at the same time would not be so high that there would be too many equity problems and work disincentives. Unfortunately, the Department of Labour does not have the necessary statistics, and using Census figures, as the Royal Commission did, is unsatisfactory in times of high inflation. The other criterion suggested by the Royal Commission was the wage of a builder's labourer, which in 1971 was found to be very close to the lower quartile of all earnings.

The Royal Commission suggested that the married rate of social security benefits should be 80 percent of the after-tax earnings of a builder's labourer, the percentage probably being an arbitrary one designed both to reflect the extra costs involved in working and to provide a work incentive.

The present married rate of social security benefit is 86 percent of the after-tax income of a builder's labourer which is significantly above the level recommended by the Royal Commission.

It is doubtful that the builder's labourer's award alone would prove a satisfactory yardstick because changes in award rates

could from time to time place builders' labourers in a more or less advantageous position in relation to other workers. Therefore, it would be preferable to relate benefits to average incomes. If it is accepted that 86 percent of the after-tax income of a builder's labourer's wage is sufficient to meet need and allow a sense of belonging then this could be accepted as a base line. It translates into 73 percent of average earnings after tax has been deducted at the married rate, and could form the basis for setting net benefit rates in the future. Table A6 sets out the relationships between average earnings, a builder's labourer's earnings, National Superannuation and social security benefits for married and single persons.



TABLE A6

**A COMPARISON OF 1978 WAGE RATES AND BENEFIT RATES**

	MARRIED PERSONS					
	Before Tax			After Tax		
	Income Per Week \$	Earnings of Builder's Labourer %	Average Earnings %	Income Per Week \$	Earnings of Builder's Labourer %	Average Earnings %
Average earner <sup>1</sup> ...	140.65	123	100	111.17	117	100
Builder's labourer <sup>2</sup> ...	114.50	100	81	94.71*	100	85
National superannuitant <sup>3</sup> ...	112.52	98	80	96.58	102	87
Social security beneficiary <sup>4</sup> ...	81.28	71	58	81.28	86	13

	SINGLE PERSONS					
	Income Per Week \$	Earnings of Builder's Labourer %	Average Earnings %	Income Per Week \$	Earnings of Builder's Labourer %	Average Earnings %
	Average earner ...	140.65	123	100	108.17	118
Builder's labourer ...	114.50	100	81	91.71	100	85
National superannuitant ...	67.52	59	48	57.88	63	54
Social security beneficiary ...	48.77	43	35	48.77	53	45

<sup>1</sup>Average ordinary time wage as determined by the October 1978 half-yearly survey (latest available).  
<sup>2</sup>Average ordinary time wage for a builder's labourer as determined by the April 1978 half-yearly survey (\$107.62) increased by 6.4 percent (the rise in the AOTW between April and October 1978).  
<sup>3</sup>Rate as at February 1979.  
<sup>4</sup>Rate as at January 1979.  
 \*The reason that the after-tax income of married superannuitants is higher than that of a builder's labourer (even though the before-tax income is lower) is that the income of married superannuitants is divided in half and each half is then taxed at the single rate, whereas in the case of the builder's labourer his income is taxed as a whole at the single rate.

TABLE A7

**NATIONAL SUPERANNUATION COSTS COMPARISON**

If National Superannuation net married rate was reduced to 80 percent of net average earnings and single rate (net) was 60 percent of married rate.

<b>NEW COST:</b>	
\$106,000 @ 88.94	9,427,640 per week
\$189,000 @ 53.36	10,085,040 per week
	19,512,680
	= \$1,014,659,300 per year
<b>PRESENT COST:</b>	
\$106,000 @ 96.58	10,237,480 per week
\$189,000 @ 57.88	10,939,320 per week
	21,176,800
	= \$1,101,193,600 per year

Savings per year \$86.5 million after tax (about \$108 million before tax).

NOTE: Costings are based on February 1979 rates.

As stated above, benefits should form part of an individual's taxable income and therefore they should be paid at a rate which results in the net income for a married couple being a fixed percentage—say 73 percent—of the net income of the average earner. If this figure were chosen, in 1978 terms it would require a gross married rate of benefit of \$92.39 per week.

To pay single social security beneficiaries 60 percent of the married rate would require a gross benefit of \$55.44 a week.

The Council considers that the benefit before tax for social security and National

Superannuation beneficiaries should be the same in the long run. However, in the short term this would involve too large an increase in social security benefits or too large a reduction in National Superannuation. The Council has therefore recommended that in the short run the only change (apart from setting social security rates on a pre-tax basis) should be to fix National Superannuation rates on the basis of 80 percent of the after-tax income of average earnings instead of the before-tax income. Table A7 shows that the saving of such a change would be \$101 million a year before tax and \$86 million a year after tax.

**Appendix 4**

**RAISING ELIGIBILITY AGE FOR NATIONAL SUPERANNUATION—COSTINGS**

Assumptions underlying these costings are:

1. That old people working less than 20 hours a week would qualify for a means-tested benefit and those working more than 20 hours would not qualify.
2. That there is not a large number of old people with substantial unearned income who are not also working—a doubtful assumption but one which is necessary because of lack of information about income source in relation to age.
3. It is assumed that wives are 3 years younger than their husbands. This has an effect on the rates. Husbands old enough to qualify for National Superannuation but with under-age wives, are paid at the single rate (60 percent of the married rate). Wives who themselves qualify and are therefore assumed to have qualifying husbands, receive National Superannuation at half the married rate.
4. Figures have been taken from the 1976 Census as to the numbers of married and

single persons aged 60 years and over, currently full-time in the work force. The basic assumption is that these persons would cease receiving National Superannuation so that the saving to the State would be gross National Superannuation paid to them, less tax on that superannuation.

5. There is no information available as to the rate of tax paid. However, as these persons by definition work 20 hours or more per week, receive National Superannuation in addition to their payment from employment, and, in a number of cases, also receive occupational superannuation, it is assumed that they are distributed around a total income of \$10,000 per annum in such a manner that their marginal tax rate, assuming that National Superannuation is their marginal income, is 43 cents in the \$1. This is the average of the rate of 38 cents in the \$1 paid on incomes up to \$10,000 per annum, and the rate of 48 cents in the \$1 paid on income over that amount.

### Costings

Savings by age cohorts would be:

#### 60 Year Olds

There are 8700 married men with under-age wives, 1200 single men, and 1000 single women, all of whom are entitled to National Superannuation at the single rate. In addition 1516 married women also work. Their spouses are assumed to qualify, so that these women are entitled to the half married rate. Savings are calculated as:

	\$
10900 at \$67.52 per week for 1 year ...	38,270,336
1516 at \$56.26 per week for 1 year ...	4,435,088
Gross saving ...	42,705,424
Less tax ...	18,363,332
Net saving ...	\$24,342,092

#### 61 Year Olds

7600 men work, together with 900 single women and 1200 married women. Savings are:

	\$
8500 at \$67.52 per week for 1 year ...	29,843,840
1200 at \$56.26 per week for 1 year ...	3,510,624
Gross saving ...	33,354,464
Less tax ...	14,342,419
Net saving ...	\$19,012,045

#### 62 Year Olds

7100 men work, together with 800 single women and 950 married women. Savings are:

	\$
7900 at \$67.52 per week for 1 year ...	27,737,216
950 at \$56.26 per week for 1 year ...	2,779,244
Gross savings ...	30,516,460
Less tax ...	13,122,077
Net saving ...	\$17,394,383

#### 63 Year Olds

Wives of married men themselves are eligible for National Superannuation in this and subsequent cohorts on the 3-year age differential assumption. Working married men thus shift from entitlement to National Superannuation at the single rate, to an entitlement at half the married rate. The work force includes 900 single men, 700 single women, 5470 married men, and 750 married women. Savings are:

	\$
1600 at \$67.52 per week for 1 year ...	5,617,664
6220 at \$56.26 per week for 1 year ...	18,196,734
Gross saving ...	23,814,398
Less tax ...	10,240,191
Net saving ...	\$13,574,207

#### 64 Year Olds

There are 800 single men and 700 single women in the work force, together with 4700 married men and 560 married women. Savings are:

	\$
1500 at \$67.52 per week for 1 year ...	5,266,560
5260 at \$56.26 per week for 1 year ...	15,388,235
Gross saving ...	20,654,795
Less tax ...	8,881,562
Net saving ...	\$11,773,233

#### Totals

The total figures for the five cohorts together are:

Gross saving ...	\$151,045,521
Less tax ...	\$64,949,581
Net saving ...	\$86,095,940

## Appendix 5

### STUDENTS IN TERTIARY AND CONTINUING EDUCATION

	1975	1976	1977	1978
<b>Technical—</b>				
Technical Correspondence Institute ...	19 634	21 712	22 022	26 404
<b>Other technical institutes—</b>				
Full-time students ...	3 666	4 260	4 728	5 760
Part-time students ...	33 091	35 151	31 801	34 282
<b>Technical classes at other institutions—</b>				
Full-time students ...	174	253	218	200
Part-time students ...	59 324	62 497	64 688	75 124
	115 889	123 873	123 457	141 770
<b>Teacher training—</b>				
Teachers colleges ...	7 211	7 521*	6 837*	6 234*
Kindergarten training centres ...	568	...	...	...
	7 779	7 521	6 837	6 234
<b>University institutions—</b>				
Full-time internal students ...	25 875	28 374	29 130	29 677
Part-time internal students ...	11 056	11 522	11 719	12 158
Extra-mural students ...	5 191	6 311	6 099	6 488
Agricultural short courses ...	280	173	212	173
Medical short courses ...	34	40	18	15
	42 436	46 420	47 178	48 511
<b>Total ...</b>	<b>965 962</b>	<b>989 993</b>	<b>989 373</b>	<b>1 006 864</b>

\*Includes 521 kindergarten trainees in 1976, 398 in 1977 and 337 in 1978.

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