Universal Superannuation and Workers

Keith Rankin, 28 May 2015

The musings of Labour leader Andrew Little over the universality of New Zealand Superannuation have created an opportunity for politicians in New Zealand to get to grips with the underlying contrast between universal and selective welfare.

While I use the expression 'selective welfare' here, in line with literature I am recently acquainted with, we can think of it as meaning means-tested and/or otherwise targeted income or social wage support. (Social wage means things like subsidised or fully government-funded education, healthcare and housing.) Selective welfare is based essentially on the principle of 'vertical equity', treating people differently on the basis of bureaucratically assessed need. Universal welfare, on the other hand, is essentially based on the horizontal equity principle – where all resident adults are substantial if not equal beneficiaries of societies' welfare structures.

New Zealand is an interesting case, in that, from 1984, its philosophical underpinning switched from universal to selective welfare. Yet it was always substantially selective, and significant universal elements do remain. Further, as I noted in Benefit Increase? The truth about the 2015 Budget (23 May), a costless stroke of the fiscal accountant's pen can reframe what we have right now into an essentially universal system. It is this reframing of what we already have that can save the Labour Party in New Zealand, should it want to be saved.

Working Class Welfare

Before I elaborate, I would like to recommend, to Andrew Little, Francis Castles' 1985 book-essay '*The Working Class and Welfare in Australia and New Zealand*'. Castles is a specialist in welfare history, is very familiar with Australian, New Zealand and European models of welfare provision, and is also steeped in Labour politics. He describes the emergence of welfare and welfare politics in these countries as "Australasian exceptionalism"; the Australasian working-class roots of the selective welfare state.

He argues that the welfare state concept was pioneered in New Zealand and Australia in the 1890s and 1900s, as a workers' welfare state. The unionised working class was always a strong political force in Australia – especially southern Australia – and became an important political force in New Zealand during the time of the Liberal Government (1890-1912). Both through Protectionist-Labour and Liberal-Labour politics, the selective welfare state was born, and the needs most acknowledged were those relating to workers' families in work and in retirement. Other key attribute of worker-welfare were the family-wage – reflected in the famous Harvester judgement in Australia in 1907 – and a system of wage arbitration which would ensure an appropriate income balance between 'labour' and 'capital'. The following two decades (1910-1930) were seen as consolidating rather than advancing these structures.

In New Zealand the Age Benefit (1898), Widows Benefit (1911), and Family Benefit (1926) were all highly selective means-tested payments. Workers in both countries did not want their benefits as workers – high wages by world standards – to not be compromised by paying benefits to people who did not strictly need them. (They also favoured substantial immigration restrictions in order to protect their high-wage labour markets.)

Castles links developments in New Zealand towards an alternative universal approach to the post-depression environment, the happenstance of a Labour government in New Zealand at that time, and the wider support constituency (mortgaged rural and provincial self-employed) that Labour in New Zealand relied upon, compared to Labor in Australia. So New Zealand Labour departed from selective principles in 1938 with Universal Superannuation, with free education, with a strong push for free healthcare (especially in maternity and in hospitals), and in the Family Benefit in 1946. These reforms did not gain much traction in Australia, even with Labor governments in the 1940s.

So the global origins of the selective welfare state lie with the Australian and New Zealand working classes at the end of the nineteenth century. That would seem to be why Labour is ambivalent about shifting away from selectivist principles, and why statements about the unfairness of paying superannuation to people with other income easily roll off the tongues of Labour politicians. Further, it was the Clark-Cullen Labour government that really entrenched the overtly selectivist and increasingly conditional approach. The leaders of that government clearly believed that 'Workers' represented a superior class of citizen to others who were low on the socio-economic pecking order.

Little, however, is more conflicted than Clark was. He sees both points of view; hence his willingness to accept that some form of Universal Basic Income is the way of a future in which work as we knew it in the twentieth century only exists for a privileged few. We are now in the century of the 'Precariat'.

Universal Welfare

From a fiscal accountancy point of view, New Zealand is fortunate in having a simple income tax scale, and an established (from 1988) benchmark tax rate of 33 percent (33 cents in the dollar).

To convert our present substantially selective welfare system to a substantially universal welfare system, we simply recognise that, from a universal point of view, we have a flat-rate of income tax of 33 percent. This means that everybody earning over $70,000 can be presently understood to be a fiscal beneficiary (to the tune of $175 per week, or just over $9,000 per year). Workers earning less receive lower, but for the most part substantial, fiscal benefits. A worker on $48,000 per annum gains a annual 'Fiscal benefit' of $8,420.

Today, most adults on zero taxable income receive Work and Income Benefits, and fiscal top-ups (known as Family Tax Credits) that recognise their children. Most adults earning between $0 and $50,000 gain a mix of Work and Income Benefits, Family Tax Credits, and Fiscal Benefits. Indeed the only New Zealand resident adults who today gain zero benefits are individuals fully supported by other family members (such as homemakers supported entirely by their partners, and students supported by parents and/or loans).

Once we understand that almost all of us are beneficiaries, and that benefits are by definition something good, then we have a majority community of interest willing to defend the welfare system (which includes welfare delivered through tax credits and tax concessions). Indeed that's why it's politically dangerous today to meddle with superannuation and free hospital admissions. In a system based on universal principles, the majority of us happily identify ourselves as beneficiaries. On the other hand, when we understand welfare as a system of selective redistribution to a 'loser' minority, we lose touch with the universal reality that we are all beneficiaries.

On New Zealand Superannuation, the 33 percent flat tax approach reveals that people over 65 who earn more than $70,000 may receive in fact two universal benefits: about $9,000 fiscal benefit and about $10,000 'New Zealand Superannuation after tax.

If we move to paying everybody over 65 an annual benefit (ie tax-free publicly-sourced income) of $14,000 (with top-ups as at present for people living alone), then persons aged 65 earning $100,000 per year should only gain an extra $5,000, given that they already receive unconditional universal fiscal benefits of $9,000. Yes, Andrew Little is correct. Elderly fulltime workers do double-dip at present.

If a future Little-led government was to pursue the simple accountancy change that I am suggesting, the present system would easily morph into that of a Universal Basic Income of $175, supplemented for over-65s by a Universal Superannuation of $100 per week, and funded by a 33 percent income tax. (These dollar values of course would need to be adjusted for inflation; more strictly for 'nominal economic growth'. And of course all existing needs-based benefits would remain; thus the first $175 per week of a beneficiary's income would be universal, the remainder a selective top-up).