McCarthy, Woodhouse and The Proposed Redundancy Social Insurance Scheme

This is adapted from a section of book, 'In Open Seas', which I am writing. I have published this extract because there has been some ahistoric claims about the characteristics of New Zealand's public income support system.

The 1972 Royal Commission on Social Security (the 'McCarthy Commission') pointed out that there was a case for extending the accident compensation scheme to those with sickness. Accident compensation had been proposed by the 1966 Royal Commission on Accident Compensation (the 'Woodhouse Commission') and was being implemented just as the McCarthy Commission on social security was published. As a result, New Zealand has two public income-support systems which do not interface well.

They come from two different traditions. The'Woodhouse' system goes back to Bismarck who introduced to Germany in 1889 an earnings-related income-support scheme for when there was need, based on the individual's contributions. It was introduced into New Zealand in the 1901 Workers Compensation Act and is the principle underpinning Accident Compensation and Kiwi Saver.

The second tradition, the 'McCarthy' system, is a non-contributor entitlement funded from general taxation which is universal for those who belong to the appropriate category of need. It began in New Zealand in 1898 with the Old Age Pension. There have been various extensions, most notably by the 1938 Social Security Act. (It applies also, although imperfectly, elsewhere, most notably in public education and health.)

(There is a third part of our public system which provides grudging relief to the 'deserving' poor who are not covered by the first two. This goes back to the English Poor Laws of the late sixteenth century. Our nineteenth-century British ancestors came out here to escape them but they followed. The McCarthy system was developed to avoid such 'charitable aid'.)

The two systems do not always interface well. For instance, an injury from an accident results in compensation from ACC (Woodhouse); the same injury from sickness gets considerably less support from social security (McCarthy). However, the interface between Kiwisaver (Woodhouse) and New Zealand Superannuation (McCarthy) does better with the first sitting on top of the second. This might be called the '(Henry) Lang' solution because the Secretary of the Treasury proposed it for retirement support in 1974, synthesising the two approaches.

Redundancy and unemployment support is even more shambolic. The worker might be entitled to the unemployment benefit (McCarthy) and there may be some earnings-related lump sum payments from the employer, which is a kind of Woodhouse scheme.

With the exception of Kiwisaver, the two schemes have co-existed for half a century virtually unchanged – the clumsy interface unaddressed.

It is now being partially addressed, with the government committed to introducing a Social Unemployment Insurance scheme. It is likely to have two main components. First, it would provide income protection for those who become redundant; second, it could provide a constructive path for redeployment.

Essentially unemployment insurance is income smoothing so that the redundant do not suffer an immediate and possibly catastrophic income collapse. Many workers have fixed commitments – like housing outlays – that cannot be changed the day after they are laid off. As far as a worker is concerned, the income smoothing from the new scheme will give her or him time to find a new job and to adjust to new circumstances. Unemployment insurance was not proposed by the McCarthy Commission which did not conceive there would be significant unemployment. Because it supported the introduction of a Woodhouse (contributory earnings-related scheme for short-term illness, there can be little doubt that had it thought unemployment a problem it would have also supported a contributory earnings-related unemployment (insurance) scheme.

However, there is a critical difference between whatever is proposed for the redundant and ACC, which pays a long-term benefit where the injury is permanent. Unemployment from redundancy is short term, so the coverage is short term – perhaps for six months.

Thus the proposed redundancy scheme is an element of the long standing Woodhouse approach which goes back to 1901 in New Zealand and earlier in Europe. Whether it will interface well with the existing McCarthy and private arrangements is yet to be seen. It is well to remember how badly the interface can be by the example of the superannuation scheme the Treasury promoted in 1998.

(I am attracted to a Lang-type scheme – like our retirement provision– in which there would be a base-tier entitlement of flat-rate social security benefit near the current rate of 30 percent of the median wage, say, and a contribution-based second tier which would be equal to 50 percent of recent earnings. Somebody on the median wage would get 80 percent of their earnings up to a maximum cap, just as they do for ACC.)

I have publicly published more on the above are
'A Proposal for an Earnings-Related Redundancy Insurance Protection'
http://www.eastonbh.ac.nz/2021/04/a-proposal-for-an-earnings-related-redundancy-insurance-protection/
and
'Unemployment Insurance'.
https://www.pundit.co.nz/content/unemployment-insurance