Commission for Financial Literacy and Retirement Income

The citizenship dividend

Introduction

This position paper recognises that citizenship or permanent residency creates an automatic entitlement to New Zealand Superannuation once the age of eligibility has been reached[1]. This entitlement is not a "dividend" in the traditional sense of a return on investment or contribution. It is paid regardless of the extent to which a citizen has worked, paid taxes and served in the community through their earlier years.

In many ways the citizenship dividend is the most difficult of the eight objectives to explain, because it arises almost entirely from a base of shared values and beliefs rather one that can be empirically justified. Other objectives can be related to (for example) quantitative measures of income, poverty or rates of saving. Although acceptable levels of these are partly a matter of judgement, there are also industry benchmarks and international comparisons which dampen significant changes in what is considered to be ideal.

The values which determine citizenship entitlements are different. They tend to be unique to a particular country and they can change markedly over time. This is not a problem if values change consistently within and across generations, and retirement income policy also changes in step. However if New Zealanders' values change unevenly and consensus is lost, then the sustainability of policy settings may come under threat. It is important to surface what those underpinning values are, and to debate them openly.

Because everyone is entitled to it, a citizenship dividend also delivers benefits of social cohesion and national identity. These elements have both intrinsic and instrumental worth. They build trust and other elements of social capital which contribute to economic growth and national wealth (Knack, 2001; Healy, 2004; Gleisner, Llewellyn-Fowler et al., 2011; Hurnard, 2012; New Zealand Treasury, 2012).

History

The notion of a citizenship dividend hasn't always been part of New Zealand's retirement income framework. The first age pensions in 1898 were severely means tested and subject to tests of "good character" which were applied in open court[2]. In other words they were highly targeted at income support and people could not expect to receive the pension merely because they were citizens. There was also a sense of indignity associated with the receipt of a pension, at least until 1938 when a universal, non-means-tested superannuation was

[1] Subject also to residency rules (resident and present in New Zealand for 10 years; including five years since the age of 50). Some people may qualify for New Zealand Superannuation with less than 10 years residence if they have migrated to New Zealand from countries with which New Zealand has a social security agreement (see www.msd.govt.nz).

[2] "Designed to exclude criminals, drunkards, and wife-deserters" (Preston, 2008).

introduced from age 65, albeit initially at a low rate. This was effectively the first "citizenship dividend".

A key value underpinning New Zealand Superannuation has been the achievement of social inclusion and cohesion by recognising, in a general way, the productive efforts and contributions made by citizens from all walks of life (Royal Commission of Enquiry, 1972)[3]. Each generation is promised the same recognition and entitlement when they reach qualifying age and this has been seen to promote solidarity. In recent decades, self-reliance and need have not been given the same weight as inclusion (Crossan, 2010).

Every citizen's entitlement to a standard pension from a standard age effectively removes any stigma that might otherwise be attached to applying for a targeted benefit. Because all citizens have the same entitlement – whether they are rich or poor, male or female and regardless of ethnicity – they are equally valued. The system is seen to be fair, so potential for resentment or envy is diminished[4] and the system of retirement income is more politically stable and sustainable. Fairness is an important value underpinning New Zealand's retirement income policy in particular (Cook, 2006) and our public policy in general (New Zealand Treasury, 2012).

What is "fairness"?

David Fischer has written about the history of fairness in a comparative study of New Zealand and the United States (Fischer, 2012). In an appendix to his book, Fischer considers the concept of fairness from different disciplinary perspectives: linguistics, moral philosophy, behavioural sciences, genetics and evolution, brain research, social and cultural sciences, economics and mathematics. According to Fischer, fairness is not taking undue advantage of others in rivalries, conflicts or competitions, as distinct from justice – an external standard of law; and equity which is based on principles of even or equal treatment in some respect – implying "an external and even empirical test of being even, straight or equal by some objective measure"[5].

But fairness is not something that is objective, fixed and unchanging – it is an abstract idea about "right conduct" that varies depending on context. In some circumstances, fairness has meant that "people should be treated in different ways or special ways that are warranted by particular facts and conditions, such as special merit, special need, special warrant, or special desire". As Fischer notes:

> *Herein lies one of the most difficult issues about fairness. How can we distinguish between ordinary circumstances where fairness means that all people should be*

[3] This Royal Commission of Enquiry's report also made reference to the "Beveridge principles" from the 1943 British review on social insurance and allied services, including "that the State, while offering security in return for service and contribution, should not stifle incentive, opportunity, or responsibility. It should establish a national minimum but allow and encourage each citizen to improve on this by his (sic) own efforts".

[4] A study of New Zealand values has found that only 1% of New Zealanders would want to see pensions "greatly cut" (Casswell, Rose et al., 2005).

[5] All quotes in this section are from Fischer (ibid).

treated alike and extraordinary circumstances where fairness means different treatment? This problem often recurs in cases over affirmative action in the United States. No court has been able to frame a satisfactory general rule, in part because of ideological differences on the bench.

In other words, what is fair is ideologically or culturally determined. According to Fischer, through time fairness has been variously described as a process, or a result, or both together, but always in forms that fair-minded people would be willing to accept as legitimate. Fairness has functioned as a mediating idea, linking individuals to groups, while recognising their individuality. This seems to be an argument for fairness as a contributor to social cohesion, although Fischer doesn't use that term[6].

However, fairness is not a universally accepted principle. Fischer also argues that while New Zealand as a country is much guided by belief in fairness, the United States upholds freedom as a core value, even to the exclusion of fairness (the prominent economist Milton Freedman wrote an essay in 1992 entitled "Fair versus Free"). However during earlier times of economic growth and plenty, freedom was a way of achieving fairness because: "one person (could) become rich without impoverishing another". Being smaller than the U.S., New Zealand faced limits to expansion at a sooner stage in its development, and "most ideals of social justice could not be realised simply by freedom of opportunity. They required intervention, planning, and even the redistribution of limited resources and material possessions such as land".

As constraints emerged, liberty and freedom were maintained in the United States but at a heavy cost in equity and fairness, while "New Zealand's ideals of social justice and fairness persisted, and so also did policies of redistribution"[7].

Despite these differences, it may be possible to reconcile freedom and fairness. Peter Corning (2011) posits a fair society that combines equality (for basic needs), equity (for rewards to merit)[8] and reciprocity[9]. This classification of equality and equity could be seen to map on to the "tiers" of retirement income (see position paper number two on income support). It's worth emphasising the point that, while fairness may sometimes require redistribution of wealth from the rich to the poor (e.g. through means testing of superannuation) this is not the

[6] Note that this paper does not deal with intergenerational fairness, which is a special case (see position paper on "Cohort self-funding and intergenerational equity").

[7] In a 2005 study of economic values (Rose, Huakau et al., 2005) New Zealanders were asked for a score between 1 ("the government should take responsibility to ensure that everyone is provided for" and 10 ("people should take more responsibility to provide for themselves"). The average score was 6.5. While these values map only loosely onto "fairness and freedom" in Fischer's terms it is interesting to note the similar dichotomy, and where the balance of New Zealanders' values lay.

[8] Hawke (2005) lists equity as one of five key characteristics of a coherent retirement income policy (along with stability, sustainability, adequacy and efficiency) and traces the presence of all five through the Super 2000 Taskforce and the work of the 1997 Periodic Working Group. "Fairness" is not included though this might be conflated with "equity" – whereas Fischer and Corning draw a distinction between the two concepts.

[9] Reciprocity (the notion of mutual obligation and expectation) is a core component of social capital, along with trust and social sanctions (Healy, 2004).

only way to guarantee equitable treatment. The concept of every citizen having equal value means that fair treatment applies across the board (e.g. in not penalising talent or success)[10].

So fairness is not just about economics. Indeed, fairness is difficult to fit within a traditional economic framework because it is not measurable. However, some schools of economists are beginning to allow that fairness exists because they have learned to empirically observe values and behaviours that are associated with it. For example, people will withdraw from markets perceived to be unfair – as will be attested by many New Zealanders bruised by share market and finance company collapses.

Implications

The idea of minimum guaranteed income as a right of citizenship is not new, e.g. (Dore, 1987; Anonymous, 1989; Liu, 1999; Van Trier, 2002) albeit not always specifically in relation to pensions. The recognition of citizenship is a different matter from providing income support for the purpose of poverty prevention, and it does not require a payment to be set at any particular level. In fact the SuperGold card, introduced in 2007, could be seen as an example of a citizenship dividend on a smaller scale[11].

Ultimately, New Zealanders' values determine the extent to which older people should be entitled to a "dividend" in old age simply because they have lived in this country, and regardless of the level of contribution they have made. The challenge is to identify what those values are, and to track any change. Rather than assuming continuity it is better to monitor and anticipate potential breakdowns in the consensus which underpins retirement income policy, and to respond appropriately. This implies a continual cycle of consultation, review and proactive leadership.

Conclusion

The concept of a "citizenship dividend" has a long history in New Zealand but cannot be taken for granted. Notions of what is "fair" are dynamic rather than fixed, and culturally determined. New Zealand therefore has to determine its own position rather than comparing itself with other countries. The precepts of economics are not always helpful in this process.

There are tensions between different sets of values which may cautiously be expressed as simple dichotomies ("freedom versus fairness"; "government responsibility versus personal responsibility"). Peter Corning's framework is useful for reconciling values of fairness, equality, equity and reciprocity. Indeed, it could be argued that New Zealand's current retirement income framework is already based on fairness in Corning's terms. Basic needs are met through New Zealand Superannuation, whereas schemes such as KiwiSaver will provide returns in proportion to voluntary contributions and investment returns. The weights placed

[10] "Redistribution mechanisms are also frequently plagued by high deadweight costs. These are a particular issue when interventions create perverse incentives" (New Zealand Treasury, 2012). See also position paper on "Consumption smoothing".
[11] Though the fairness of the SuperGold card is debated by some, because there are regional disparities in access to eligible services.

on these respective instruments will be influenced by values – among other factors – and the balance between them is likely to be a key focus of periodic reviews of retirement income policy.

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