

CHiLD
POVERTY
ACTION
GROUP



Improving policies for families and children

NZ Treasury seminar

22nd August 2016

[Hon A/Prof Susan St John, University of Auckland](#)

Economics spokesperson , Child Poverty Action Group

My involvement in family income issues



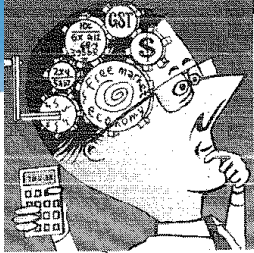
- Early 1980s: work for NZ committee for children
- Royal Commission social policy 1987
- 1990 CPAG UK
- **1991 the mother of all budgets**
- 1994 CPAG NZ
- Management committee 22 years
- 17 post budget breakfasts, 10yrs HR case
- Multiple CPAG publications, submissions, articles, talks, lectures etc. [website](#)

Fragility of the policy making process

As a general rule, the more people facing higher effective marginal tax rates over longer ranges of potential income, the greater the costs to society and the greater the probable loss of output... (The New Zealand Treasury, 1990, p. 110)

Treasury identified high levels of benefits as a major factor preventing a more gradual abatement system.

- Benefits would be cut significantly and the Change Team on Targeting Social Assistance design a new ‘**integrated**’ **system of targeted social assistance**.
- 1991 Family accounts
- Couldn’t make it work
- Left with welfare mess- **increased poverty & high abatements**



Concluding our series of articles in which leading economists look at where we should be in the year 2000 and how we should get there, **Susan St John** hopes economic debate about alternatives becomes more open

Omens of further social stress

In the last seven years national income has been static while its distribution has become significantly less equal.

Tax and benefit cuts and user fees policies have favoured those with full-time employment over those on benefits, the healthy over the sick, the childless over families, and those with wealth over those with few assets.

We now have children who go to school hungry, diseases that are untreated, charities that are over-stretched, and even tertiary institutions setting up foodbanks. Maori and Pacific Island groups have been disproportionately affected. A hint of the problem can be inferred from the 1991 census figures which show that in these groups, 40 per cent of males between 20 and 60 are not working.

There has been a marked concentration of traditional full-time, well-paid jobs and an expansion of part-time, poorly paid, casual jobs and self-employment.

IN THE next seven years, technological change is likely to continue to alter the nature of production and labour market opportunities.

As a result, the proportion of national income paid out as wages is likely to continue to decline at the same time as the ownership of productive assets becomes more concentrated.

By the year 2000 we may need to abandon the shibboleth

that hard work and savings should be the basis of distribution. The fundamental challenge will be to find ways of redistributing non-labour income in order to maintain demand and prevent poverty and alienation.

It is extremely important that we do not continue to undermine the export sector and the domestic base with a single-minded focus on balancing the budget and holding inflation below 2 per cent. If we do, we can expect society to become more divided, more violent and more unequal.

Lester Thurow remarked recently that New Zealand and Britain may be the last two countries left in the world playing *laissez faire* economics.

Following the changed philosophy in the United States, our macroeconomic policies may become more moderate and pragmatic, but even so much of the damage of the past few years will be irreversible.

Moreover, there are still demands from the Business Roundtable and others for more cuts to benefits and other social provision such as tertiary education so as to produce fiscal balance.

It is to be hoped that we have learned something from the counterproductive 1990 and 1991 expenditure cuts, and that economic debate about alternatives becomes much more open.

It is also to be hoped that we develop a more sophisticated view of the role that government intervention can play to enhance

economic development. By the year 2000, we should be making collective investment in the social and physical infrastructure needed for the retirement of the baby boom generation.

The recent emphasis on self-provision and the sharp shift in favour of targeted social provision of all kinds holds portents of further social stress. Again, the effects will not be easily reversed even if policy is moderated in the next few years.

PEOPLE who must subsist for longer and longer periods on inadequate benefits are forced to run down their assets and accumulate debt.

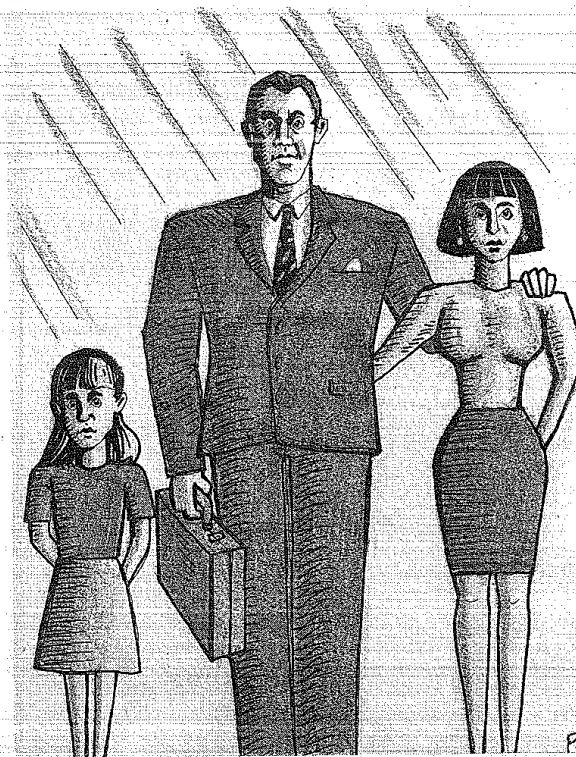
Even the lucky ones who eventually find employment will find restoring financial health is a slow and painful business.

This may become most obvious in the case of those who face early retirement through redundancy and must fall back on the support of the income-tested 55-plus benefit.

At \$218 a week for a married person, this is a pittance, especially for those in poor health or without debt-free homes.

The 55-plus benefit traps people mercilessly; the only escape is an elusive full-time job. Part-time income over \$80 is effectively confiscated through the tax and clawback system.

By the year 2000, these people may come into official retirement in penury. For them, even though the state pension is paid



Some families under current policy directions actually lose disposable income as their gross income increases

at a margin above the 55-plus benefit, it may be too late to alleviate destitution because their assets will be gone.

If we wish to avoid widespread marginalisation of older people in the future perhaps we should place less emphasis on the virtues of private provision and return to a commitment to the principle of income adequacy for all.

If nothing changes by the year 2000, many more people other than beneficiaries will experience the bizarre, cumulative effects of targeting.

Most of those coming into the work force in the year 2000 will do so after tertiary training which is now a necessity, not a luxury. Many will have large student debts to repay.

On top of current PAYE rates this will produce effective mar-

ginal tax rates of either 38 per cent or 43 per cent.

OTHER targeted social provision markedly increases these rates, especially for those with children. Abatement of family support alone will increase the marginal tax rate to 56 per cent, 68 per cent or 73 per cent.

On top, childcare subsidies and the accommodation supplement also reduce against taxable income as will health subsidies if the "interim targeting regime" is replaced by something related more sensitively to family income as we have been promised.

Pity help those who divorce, remarry and begin a new family. Child support payments are also income-related and could mean another loss of up to 30 cents for each additional earned dollar.

When children enter tertiary

institutions student allowances reduce at 25 cents in the dollar against parental income, with cumulative effects when there is more than one student.

It is easy to demonstrate that some families under current policy directions actually lose disposable income as their gross income increases.

Nevertheless the direction of policy continues to emphasise targeting. It does not appear to have been fully appreciated that this zealous approach creates very high tax rates over long income ranges.

The inevitable disincentives to earn and save, the evasion, the high administrative costs and the intrusion do not augur well for an efficiently functioning economy next century.

Just as early in the 1980s when we had a tax system that was widely abused as more and more high and middle-income people were affected by high marginal tax rates on personal income, in the early years of next century we are heading to an even bigger problem from the perverse incentives of high and arbitrary marginal tax rates on low and middle-income recipients.

These effects are the price that we have paid to maintain the low marginal tax rates of 33 per cent for the well-off.

We have no capital gains tax and now no death duties, so there are few levers in place to prevent further widening of the income and wealth distribution.

Such policies also leave us ill-equipped to moderate another share market and asset boom.

Unravelling the results described above will not be easy or necessarily equitable in the short run. A commission with at least the resources of the recent Todd Task Force on Private Provision for Retirement is needed as a start. Unlike the recent approaches to redesigning the welfare state the process must not exclude the very people who are most affected.

● *Susan St John is senior economics lecturer at the University of Auckland*

● **NEXT WEEK:** Finance Minister Ruth Richardson and Opposition finance spokesman Michael Cullen review the Toward 2000 series

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Tax and benefit cuts and user pays policies have favoured those in full-time employment over those on benefits, the healthy over the sick, the childless over families, and those with wealth over those with few assets.

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So where are we 25 years on from the mother of all budgets?

Auckland Painful images of growing inequality

**A
BAND
AID
BUDGET**
CPAG's analysis of the
2016 Government budget



New Zealand's most shameful secret: 'We have normalised child poverty'

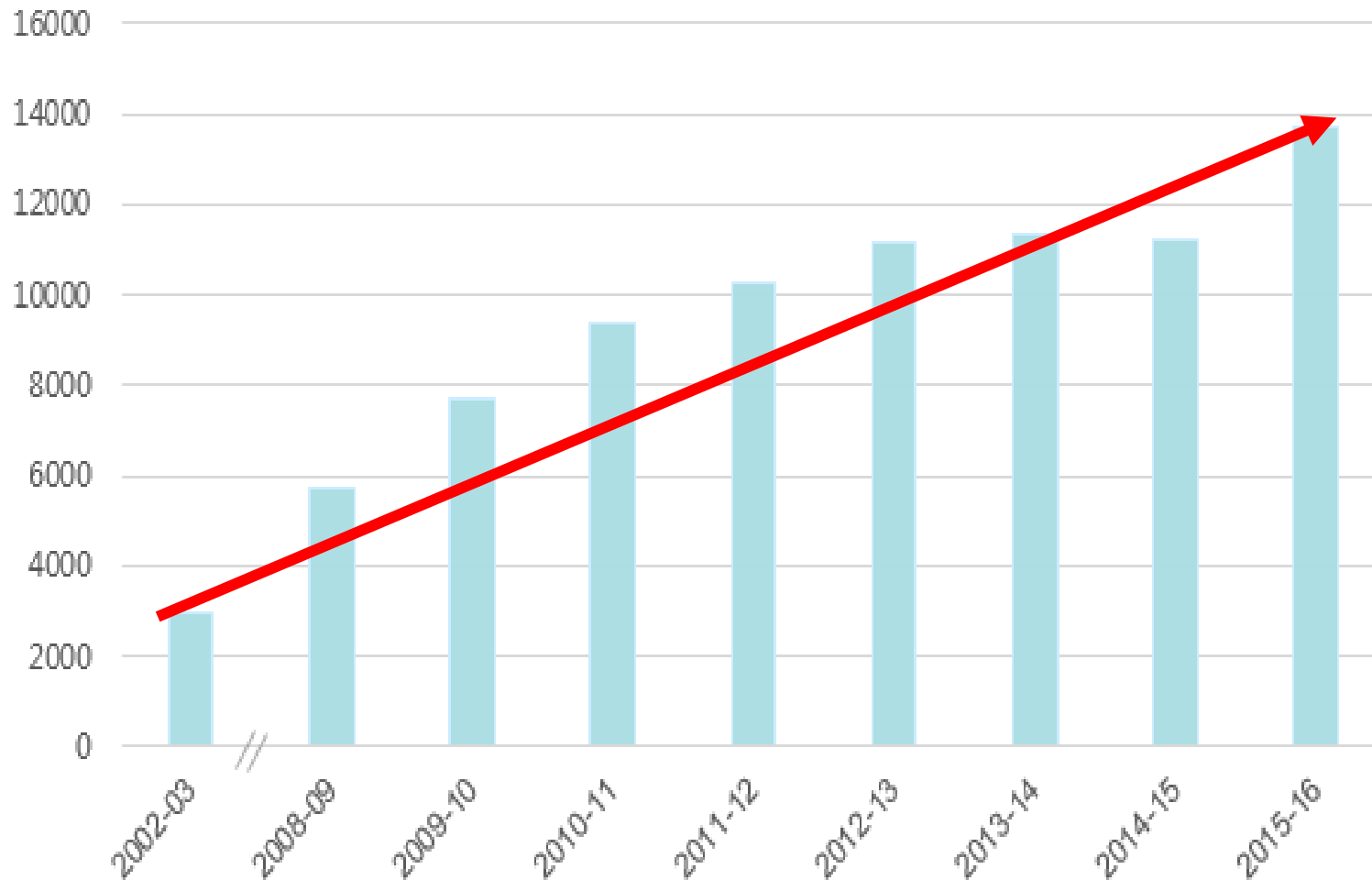


- **Unicef and charities urge New Zealand to act on child poverty**

Minister dismisses Guardian report highlighting issue as 'sensationalist' from a paper that 'supports Jeremy Corbyn'

Auckland City Mission- barometer of distress

Food Parcel Demand Year to Year



Auckland City Mission swamped by demand



"I knew there would be a queue but I didn't think there would be people sleeping here since 1am,".

[Auckland City Mission swamped by demand | Stuff.co.nz](https://www.stuff.co.nz/auckland/news-local-news/123456789)

[Demand high at Auckland City Mission | Stuff.co.nz](https://www.stuff.co.nz/auckland/news-local-news/123456789)

Emma-Lita Bourne (2 years) died in Aug 2014



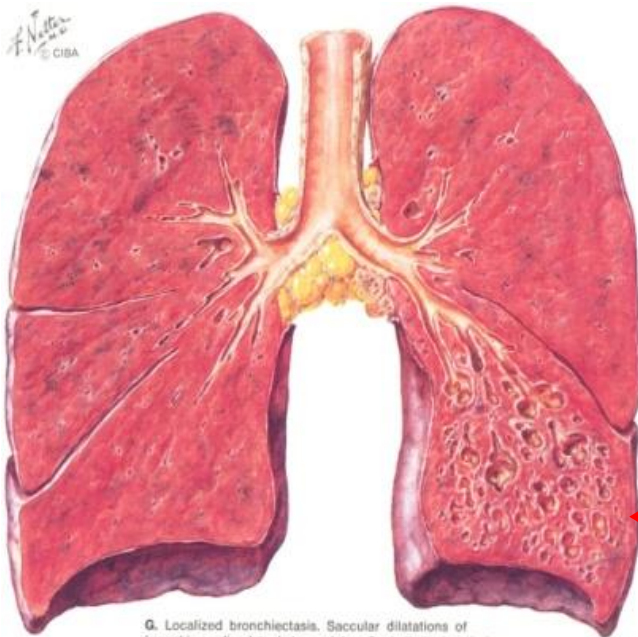
Coroner:

Cold, damp house contributed to her death from pneumonia

Source: Professor Innes Asher, CPAG

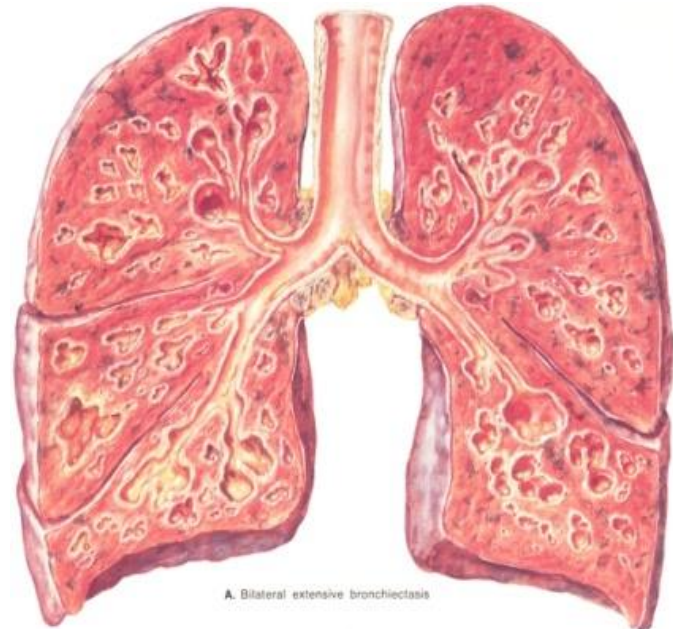
Bronchiectasis (scarred dilated airways)

- Caused by repeated or severe pneumonia
- **In NZ is 8-9 times commoner than UK and Finland**



G. Localized bronchiectasis. Saccular dilations of bronchi, confined to l. lower lobe. Such limited pathology may be amenable to surgery

Normal lungs with
bronchiectasis
on bottom right



A. Bilateral extensive bronchiectasis

Bronchiectasis
all areas of the lungs

Bronchiectasis sputum

One cough produces
blob of sputum
(pus-like phlegm)



\$1 coin

Child produces a cup of sputum over one day



Bronchiectasis (scarred dilated airways)



Child with
bronchiectasis



May die as a teenager or young adult
or too sick to work

On our watch.....

A sign of insanity is
continuing to do the same
things and expecting a
different result

What does CPAG try to do?

- Produce credible research
- Use academics to raise profile of social justice issues
- Contribute to public debate and political pressure for change
- Sometimes activist eg Hikoi for housing— Park-up for homes
- Argue for ‘better’ policies that puts **children’s wellbeing at the centre**- human rights approach

Best interests of the child at the centre



From 1990s policy focus has put paid work at centre



2015 Child Hardship Bill continued

“A relentless focus on paid work”

CPAG 2016 agenda

- Housing campaign
- Budget breakfasts in 7 locations
- Facebook and twitter
- [Submissions](#) eg social security rewrite, paid parental leave, CYPF review, healthy homes
- Kathryn's story
- Laybying our future
- Fix Working for Families campaign
 - Six parts – currently on phase 2

Where did CPAG interest in Kathryn's story come from?



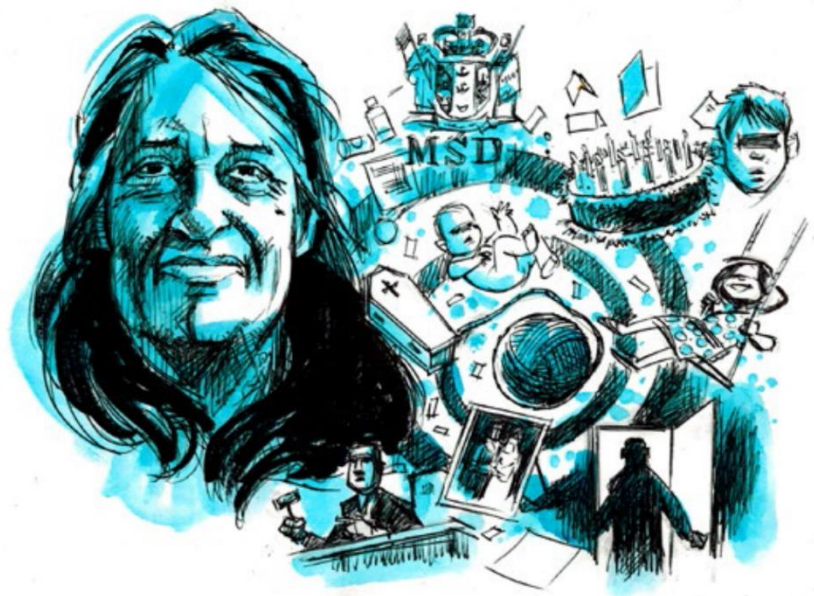
The complexities of
'relationship' in the
welfare system and
the consequences
for children

[See Report here](#)

A Child Poverty Action Group Background Paper

Susan St John
Catriona MacLennan
Hannah Anderson
Rebecca Fountain

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Kathryn's Story

[More information see here](#)

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CPAG Wellington Seminar Child Poverty and Social Justice: Not all are equal in NZ

When

Wednesday September 21, 2016
from 5:30 PM to 7:00 PM NZST
[Add to Calendar](#)

Where

Mezzanine MZ 05 and 06,
Rutherford House
Victoria University of Wellington
Pipitea Campus,
Wellington
New Zealand

CPAG invites you to attend a Wellington Seminar on Child Poverty and Social Justice on 21 September.

The evening will provide an opportunity to discuss benefit fraud and the effects on families and children in poverty. Including a presentation about Kathryn's story, the story of a chronically-ill beneficiary mother convicted and jailed for benefit fraud despite maintaining her innocence.

Followed by research findings around different treatments in the justice system between tax evasion and welfare fraud.



[Call for interest on student loans](#)

From Radio New Zealand Audio

Published 06:47 04/08/2016

The ***Child Poverty Action Group*** is calling on the Government to start charging interest on student loans saying it would make life easier for students.





Why do we need Working for Families?

- Society must support the young and the old
- We do 'old' very well!
- We don't say- "NZ Superannuation is a subsidy to employers"
- Working for Families is an **investment by society in its future.**

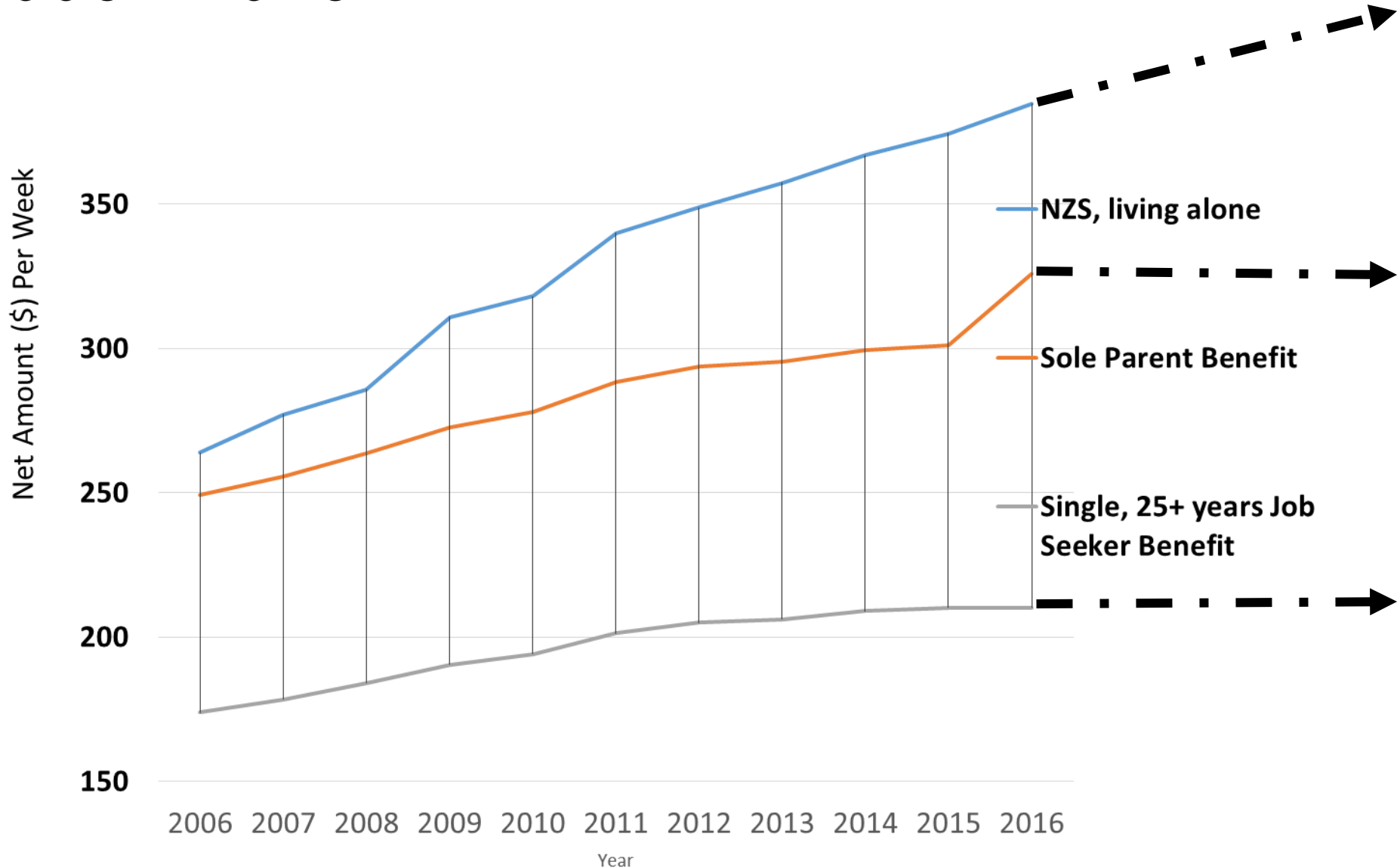


#FWFF

FIX
WORKING
FOR
FAMILIES

- **Benefits are for adults.** (established 2005)
- **The April 1 2016 increase of \$25 to core benefits only for those with children muddies the waters by pretending to be for children.**
- **All benefits needed to be increased**
“Increasing main (basic) benefits and indexing them to median wages would reduce poverty across all beneficiary classes” [OECD 2015](#)

Change in NZS and Core Benefit rates 2006 - 2016





#FWFF FIX
WORKING
FOR
FAMILIES

- **Benefits are for adults.**
- **Working for Families** is for children.

Complexity of WFF

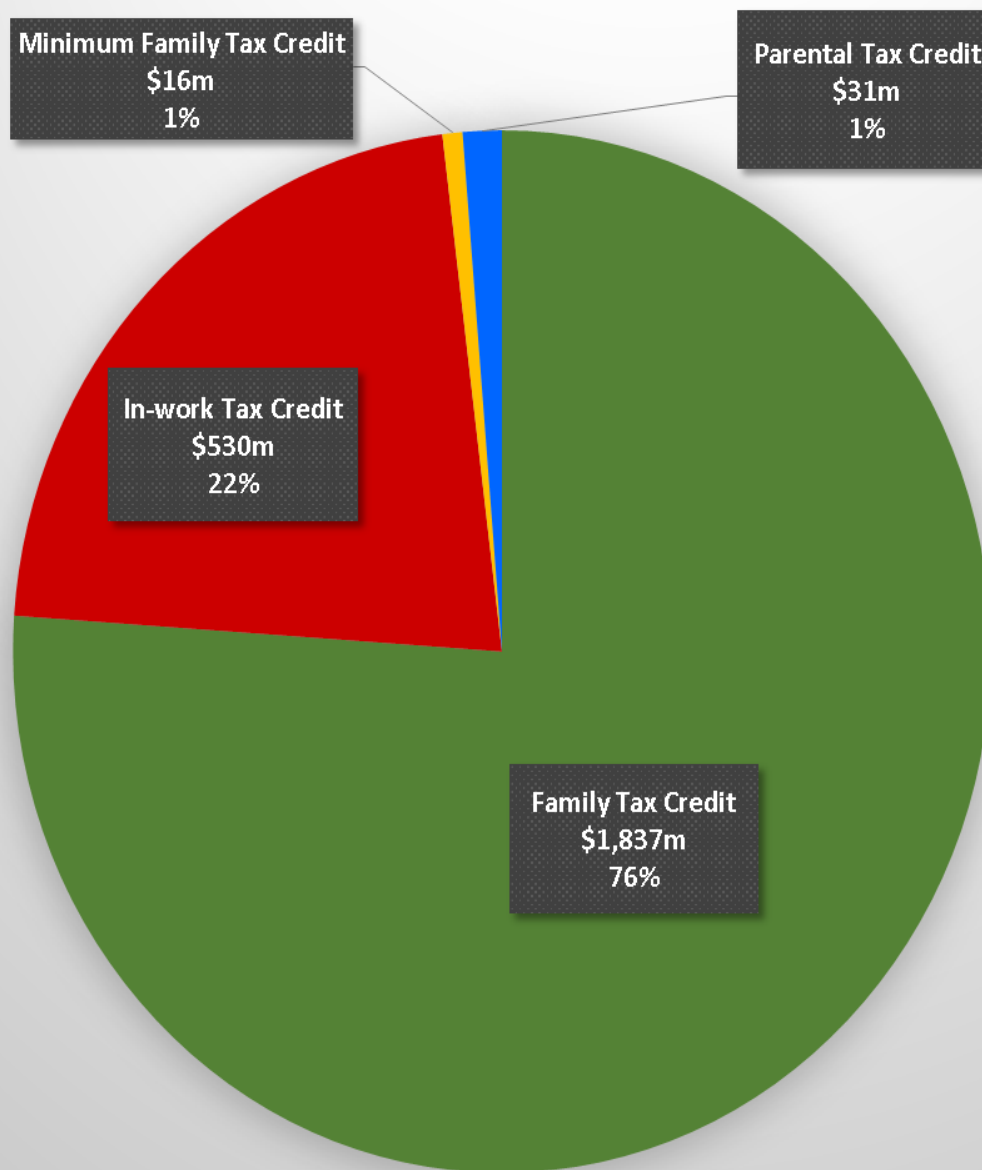
Parental Tax Credit
In Work Tax Credit
Family Tax Credit
Minimum Family Tax Credit
Net earned income

WFF abates from
\$36,350 at 22.5%

Guaranteed
Income **\$23,764**

↑ EMTR=100%

Components of Working for Families Tax Credits by Cost, 2016



Total WFF
\$2.4 billion

10 years after IWTC came in: 2016

The In Work Tax Credit rises to \$72.50 a week

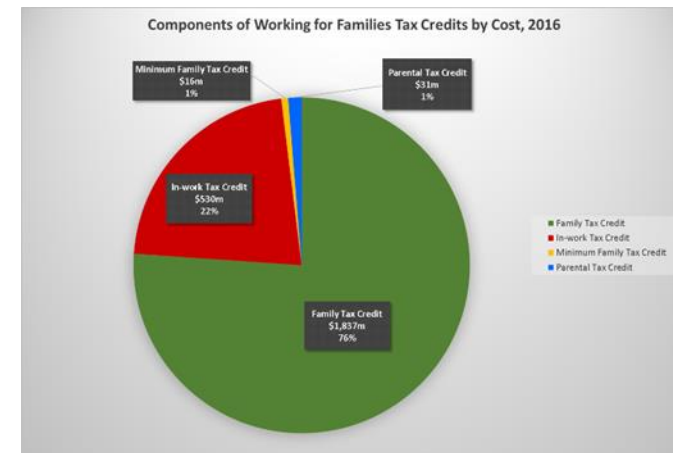
Just an inflation catch-up

A lot for the poorest children to miss out on



Only work-based WFF increases

WFF	2016	2020
FTC	1837m	1831m
Other	577m	639m



#FWFF FIX
WORKING
FOR
FAMILIES

So what is wrong with WFF?



Working for Families evaluation?

Purposes

1. To incentivise work.

Who worked more because of it and who worked less?

Working for Families changes: The effect on labour supply in New Zealand **Treasury 2014**

“the introduction of the new policy increases labour supply of sole parents by an average of 0.62 hours per week, but decreases labour supply of married men and women by 0.10 and 0.50 hours per week, respectively”

2. Ensure income adequacy- reduce child poverty

The prime aim WFF- reduce Child Poverty

From 1992 to 2004, children in workless households generally had poverty rates around four times higher than for those in households where at least one adult was in full-time work.

“WFF had little if any impact on the poverty rates for children in workless households”

MSD 2012

From 2007 to 2013, the difference was even greater – around six to seven times higher for children in workless households. This to a large degree reflects the greater WFF assistance for working families than for beneficiary families. (MSD 2015 Household incomes report)

What has been the cost to 'non-deserving' families

Since 1996 each year there has been a cumulative loss from poor families' balance sheets

1996-2006 **\$2.25B** due the CTC

2006-2016 **\$5+ B** due to work based child tax credits

\$7+. Billion and rising

2016-2026...???

The IWTC is an arbitrary payment Who cant have it?

- Poorest children
- Students even if full time
- Anyone on ACC since before 2006
- Any family on a benefit or
NZ Super
- Any one whose hours fall below the
minimum
- A separated mother
- Someone surviving on child support
- Sole parent on a part benefit working 20
hours

Case studies- IR website

- Dale is a single parent who works as a teacher aide for 22 hours a week. She's contracted to work for the school from February to December although she doesn't work during the two week term holidays. She's entitled to receive an in-work tax credit from early February until mid-December because she works the required hours and receives income during that period.

Dale can't receive an in-work tax credit during the summer holidays because she's not contracted to work for that period.

Who can have this 'work incentive'?

- Those who meet fixed hours and off benefit rules
- Mothers at home
- Those in large high income households.
- Casual workers but only for the weeks they meet the hours
- Mothers on Paid Parental Leave!!

Where is the child in all of this?



#FWFF FIX
WORKING
FOR
FAMILIES

CPAG Summary FWFF campaign: Part one.

- Abolish all fixed hours of paid work requirements for the payment of any WFF tax credits.
- Abolish the IWTC. Add \$72.50 to the first child Family Tax Credit.

Cost: around annual \$377-565 m

MOST cost effective way to improve child poverty

We have to spend some money to fix this problem

TABLE 1

How much additional weekly family income is needed on top of current welfare benefits to get over four poverty lines

	BEFORE HOUSING COSTS		AFTER HOUSING COSTS	
	50% of 2012 median	60% of 2012 median	50% of 2012 median	60% of 2012 median
Sole parent, one child	\$0	\$30	\$82	\$148
Sole parent, two children	\$0	\$78	\$111	\$194
Couple, one child	\$0	\$69	\$156	\$244
Couple, two children	\$0	\$110	\$184	\$286

Boston et al, 2013

Solutions to Child Poverty in New Zealand evidence for action



...unless the incomes of 'workless' households with children can be boosted significantly by one means or another, major reductions in child poverty will be extremely difficult to achieve. It is critical that policy makers grasp this fundamental point. Jonathan Boston



OZ JUST DOES IT BETTER:

[A comparison between Australian and New Zealand family tax credits](#) (June 2016) Dr Ben Spies-Butcher and Dr Adam Stebbing of Macquarie University



OUTLINE OF 6 pronged campaign on FWFF

1. Low income families

Incomes under \$36,000.

Families on benefits/Others

Child rights and discrimination

2. Low income families

Incomes over \$36,000

Cumulative 5% inflation rule

Thresholds and abatement

Living wage and WFF

3. Newborns and WFF

Paid PL

Parental Tax Credit

Child care subsidies

4. Work incentives of WFF and benefits

abatement of benefits

Min Family Tax Credit

5. Impact of other welfare assistance and WFF

Childcare subsidies/ child support

TAS

AS

6. WFF and relationship issues

Universal payments

Basic income



Part 2

Low income 'working families'

Continuous erosion of WFF

No changes until cumulative inflation is 5%

Last change 2012

A basket of goods and services
that cost \$1.00
in quarter 3 of 2011
would have cost

\$1.04

in quarter 2 of 2016

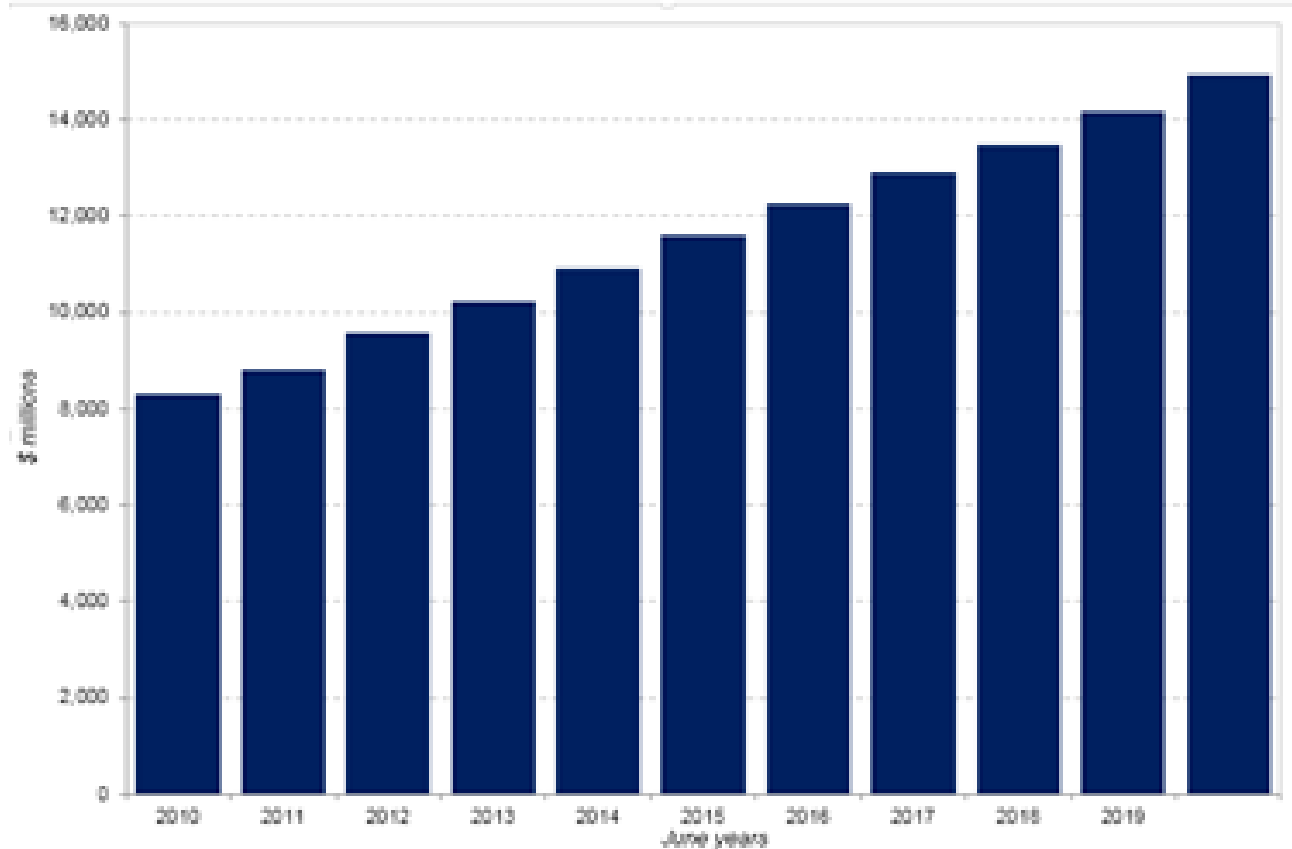
Total percentage change	3.7%
Number of years difference	4.75
Compound average annual rate	0.8%
Decline in purchasing power	3.6%
Index value for 2011 quarter 3 is	1162.0
Index value for 2016 quarter 2 is	1205.0

**Next change not
until 2018 or
2019?**

A BAND AID BUDGET

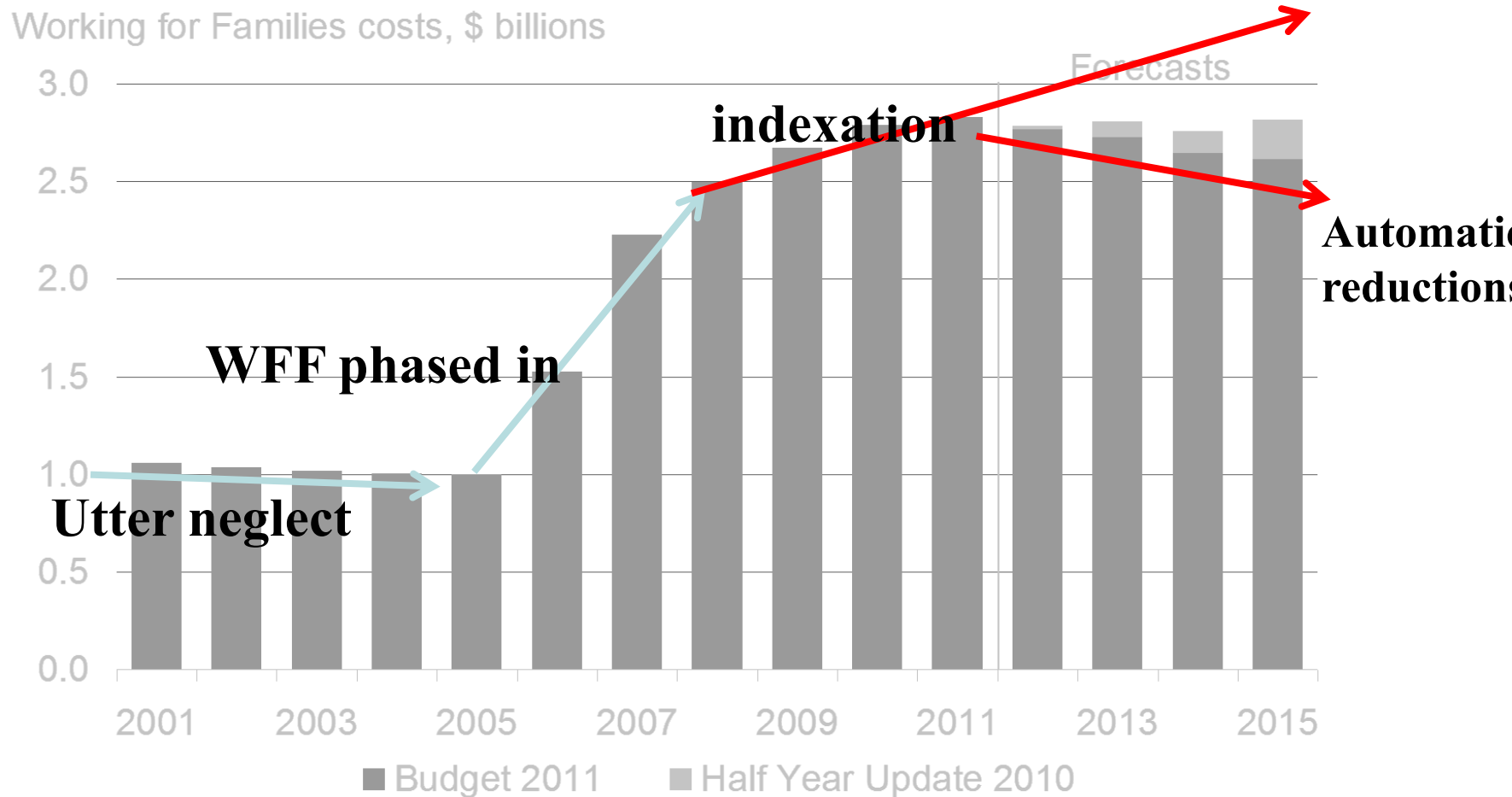
CPAG's analysis of the
2016 Government budget

NZ Superannuation



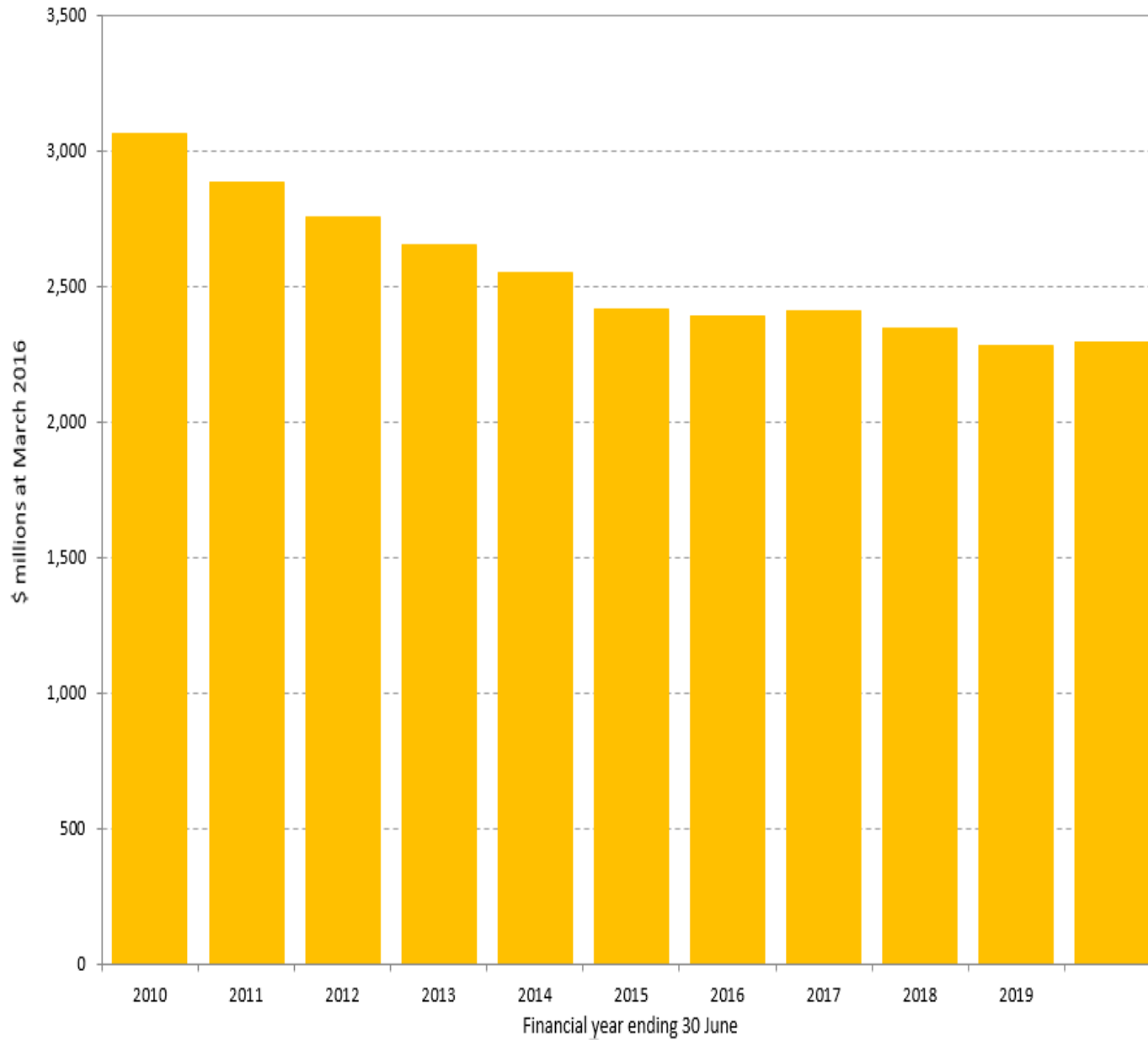
NZ Super payments have increased not only because of demographic change but also because **real rates** of super have increased with wage growth.

What happened in the 2011 budget



“Working for Families was designed in good times and the cost has almost doubled over the past five years to \$2.8 billion. We think the scheme is important to families, but we want to target it better and hold its cost” Bill English.

Erosion of WFF since 2010 (\$March 2016)



Need
another
\$700m to
stand still

(and
another
\$500m to
extend the
IWTC)

Derived from
BEFU 2016

2016 threshold \$36,350 is set to fall to \$35,000 over time.

The rate of abatement will rise to 25%

2005 threshold was \$35,000

2016 If indexed to prices would be \$44,000

If indexed to wages would be \$ \$52,642

Threshold in Australia is \$51,903

abatement 20%

BY 2025 expect threshold be only \$35,000

\$36,350 in 2016 is no fortune

46 hours at minimum wage \$15.25

....Moreover and extra \$10,000 means

Tax	1750
acc	145
wff	2250
stud loan	1200
Kiwisaver	300
accommodation supplement	<u>2500</u>
total loss	8,145
disposable income	\$1,855

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



How does WFF fit with the living wage?

Based on 1.5 earner/2 children household

Total gross income is \$61,776

WFF \$ 6,162

Loss from abatement \$ 5,772

WFF needs to be supported not eroded

Part 2 ask

- Full annual indexation of rates
- Full indexation of all threshold from 2005
- Abatement 20%
- Indexation to net wages
- Living wage campaign support FWFF



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TAS

AS

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Case study IRD

Kezi is 20 years old. She has a two year old daughter for whom she receives child support. Kezi's been working for a temp agency for the past 16 months. Two weeks ago, she gave birth to a baby boy and is now at home with him. **Kezi's new partner Mark is a student and receives a student allowance.**

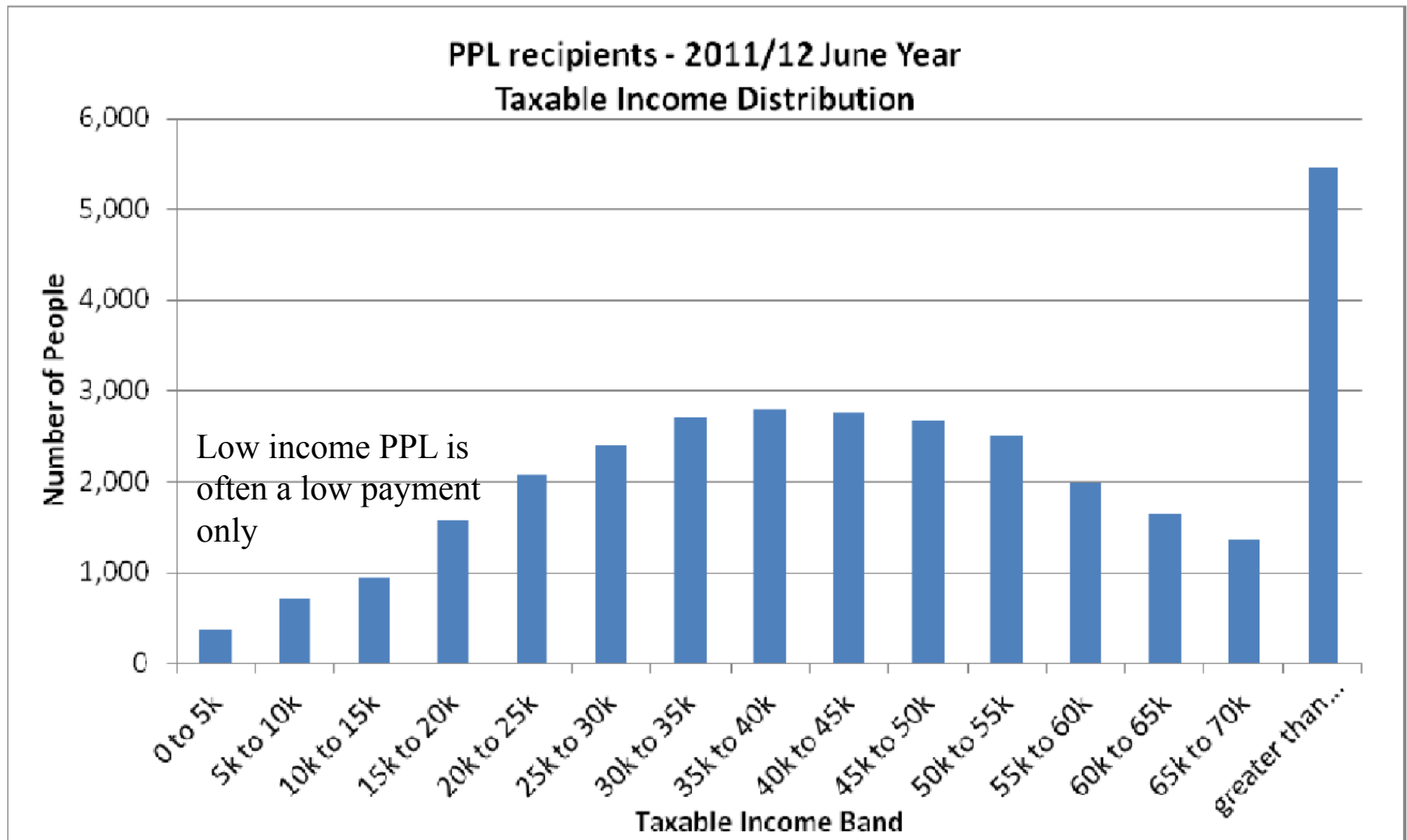
Kezi can't apply for a parental tax credit but she can apply for paid parental leave.

CPAG says- this shows the support for newborns is broken—she is unlikely to get PPL, and then her baby misses out on the PTC and IWTC **because** her new partner is on a student allowance

The Lottery for new borns?

Baby	FTC	PPL	PTC	IWTC	total max support pa	
extra	\$4,784	\$8,326		\$3,770	\$16,880	
	\$4,784		\$2,200	\$3,770	\$10,754	
	\$4,784				\$4,784	
(Note under Labour net PPL for 26 weeks is \$12027)						

Mostly Paid parental leave is a middle to high income bonus



NZH Susan St John: Longer paid parental leave would not help some babies Jul 5 2016



“Paid parental leave is fundamentally **a compensation for lost income**. A high-income earner needs fewer hours to qualify for the maximum. It elevates the contribution to the paid workforce above all other considerations. Ironically it is not an employer payment and does not oblige the mother to go back to work and, despite being state-paid, it is not income tested. Paid parental leave is not fundamentally a state payment to support all newborns.”