

CHiLD POVERTY ACTION GROUP



Law and policy **17th October 2016**

Hon A/Prof Susan St John, University of Auckland

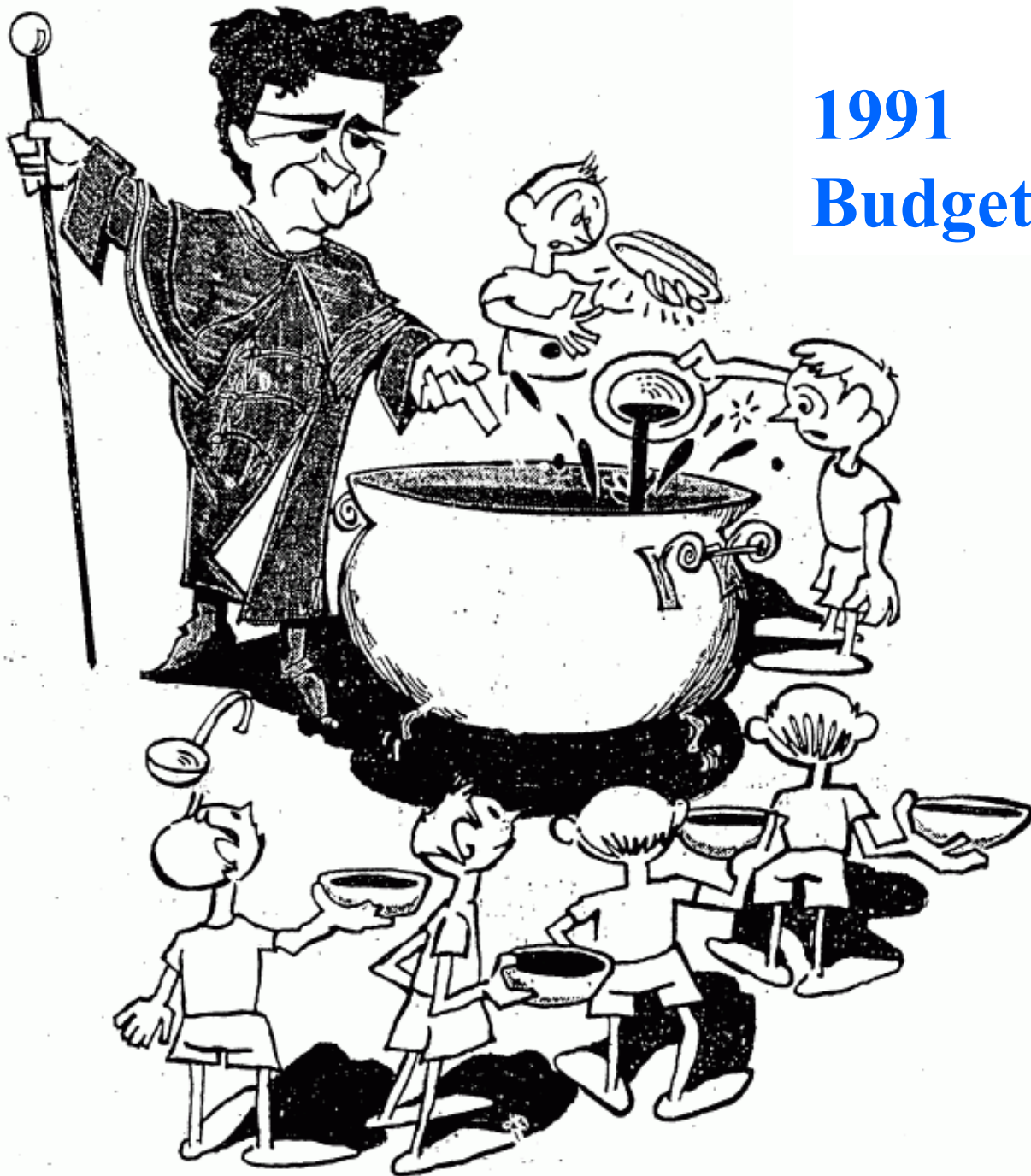
Economics spokesperson , Child Poverty Action Group

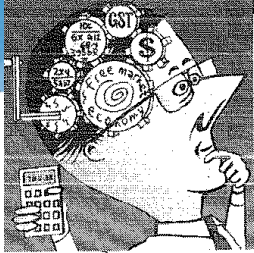
My involvement in family income issues



- 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
- 17 post budget breakfasts
- 10yrs Human Rights case
- Multiple CPAG publications, submissions, articles, talks, lectures etc. [website](#)

1991 Budget





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 expect 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.

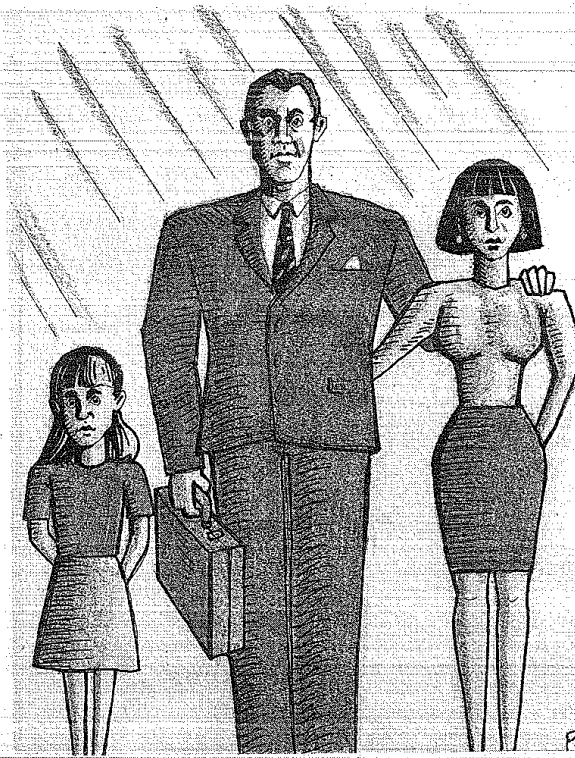
Even the lucky ones who eventually find employment will find restoring financial health is a slow and painful business.

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'

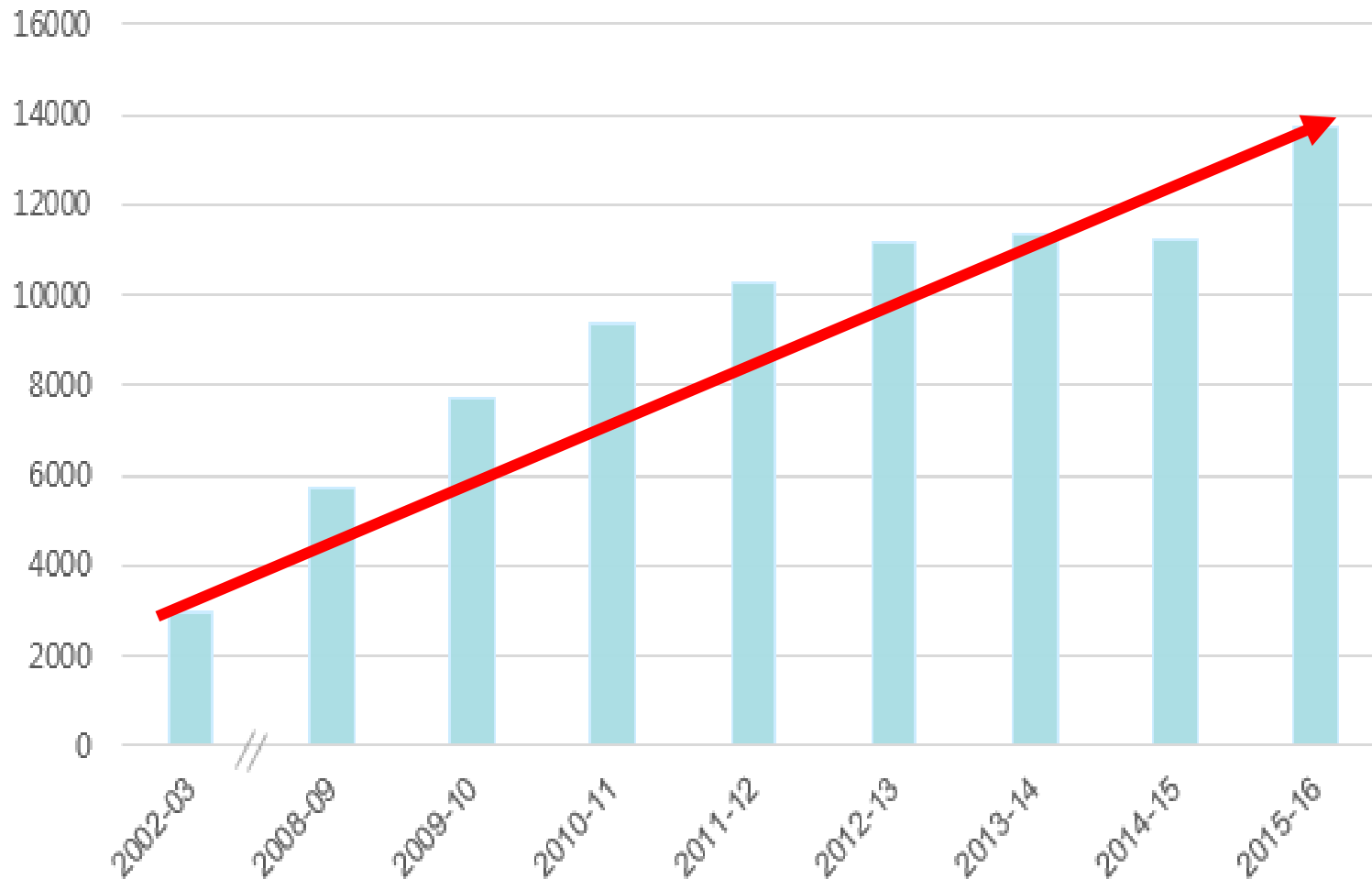


- **Unicef and charities urge New Zealand to act on child poverty**

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



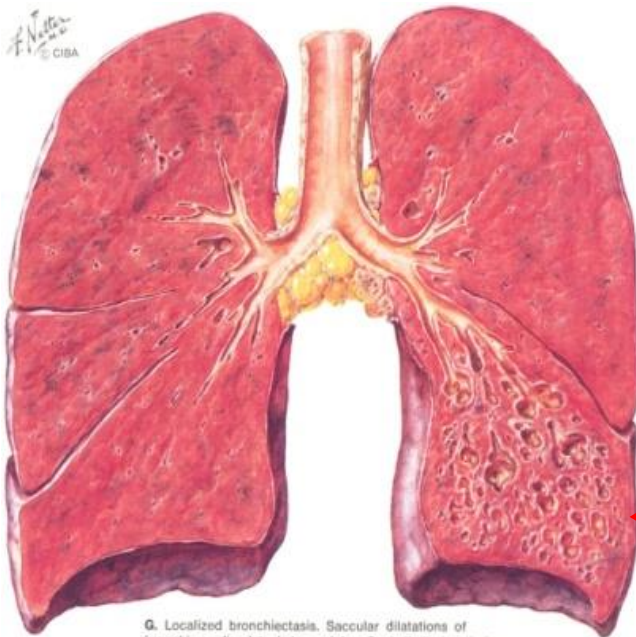
Coroner:

Cold, damp house contributed to her death from pneumonia

Source: Professor Innes Asher, CPAG

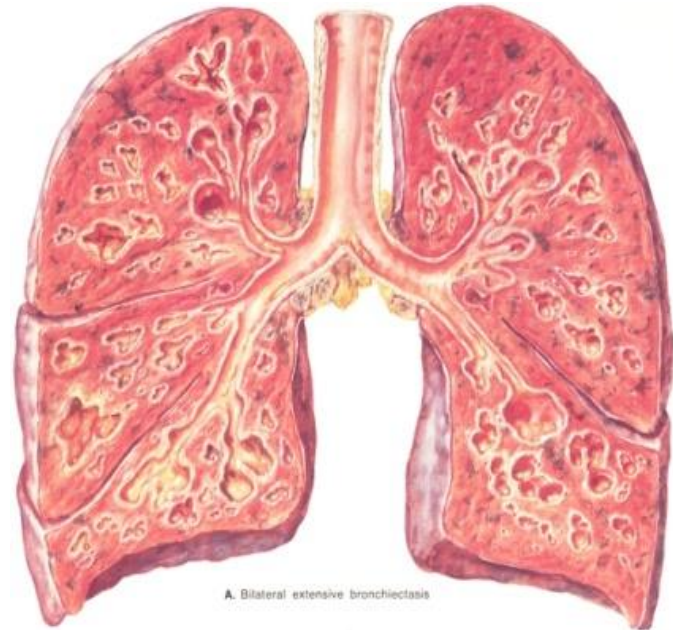
Bronchiectasis (scarred dilated airways)

- 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)

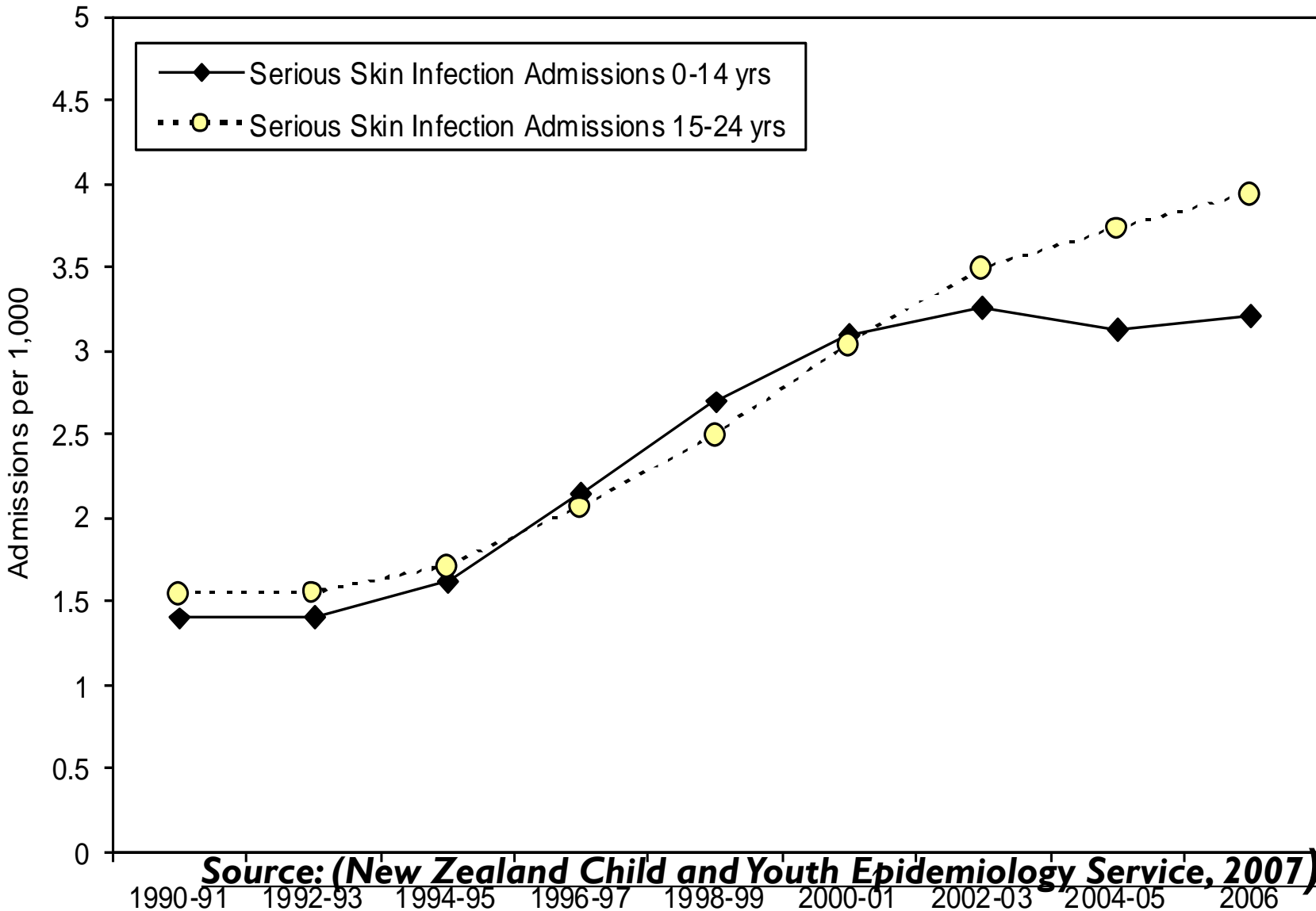


Child with
bronchiectasis



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

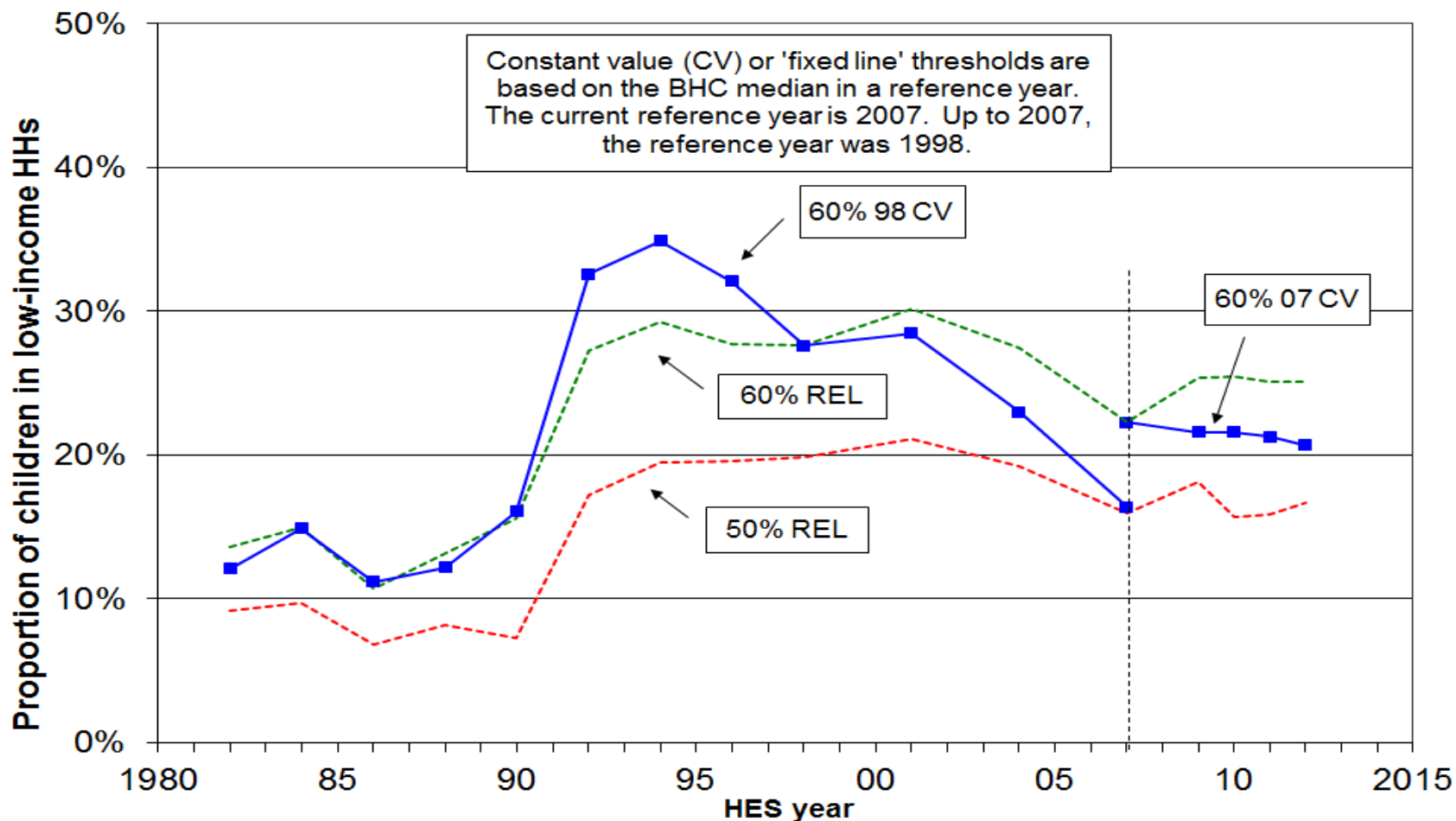
Third world disease rises in 1990s



How do we measure poverty? Should we set targets?



Proportion of children below selected thresholds (AHC): fixed line (CV) and moving line (REL) approaches compared (Perry 2013)



Child hardship rates high- 150,000 children in severe poverty



Hardship measures...can you

- have a meal with meat, fish or chicken every second day
- keep the home adequately warm
- replace worn-out clothes by some new ones
- have two pairs of properly fitting shoes
- replace worn-out furniture
- have access to a car / van for personal use
- avoid arrears in mortgage or rent, utility bills or HP instalments
- spend a small amount of money each week on oneself
- have both a computer and an internet connection
- have regular leisure activities
- have a get together with friends/family for a drink/meal at least monthly
- **have one week's annual holiday away from home**
- ability to face unexpected expenses of NZD1500

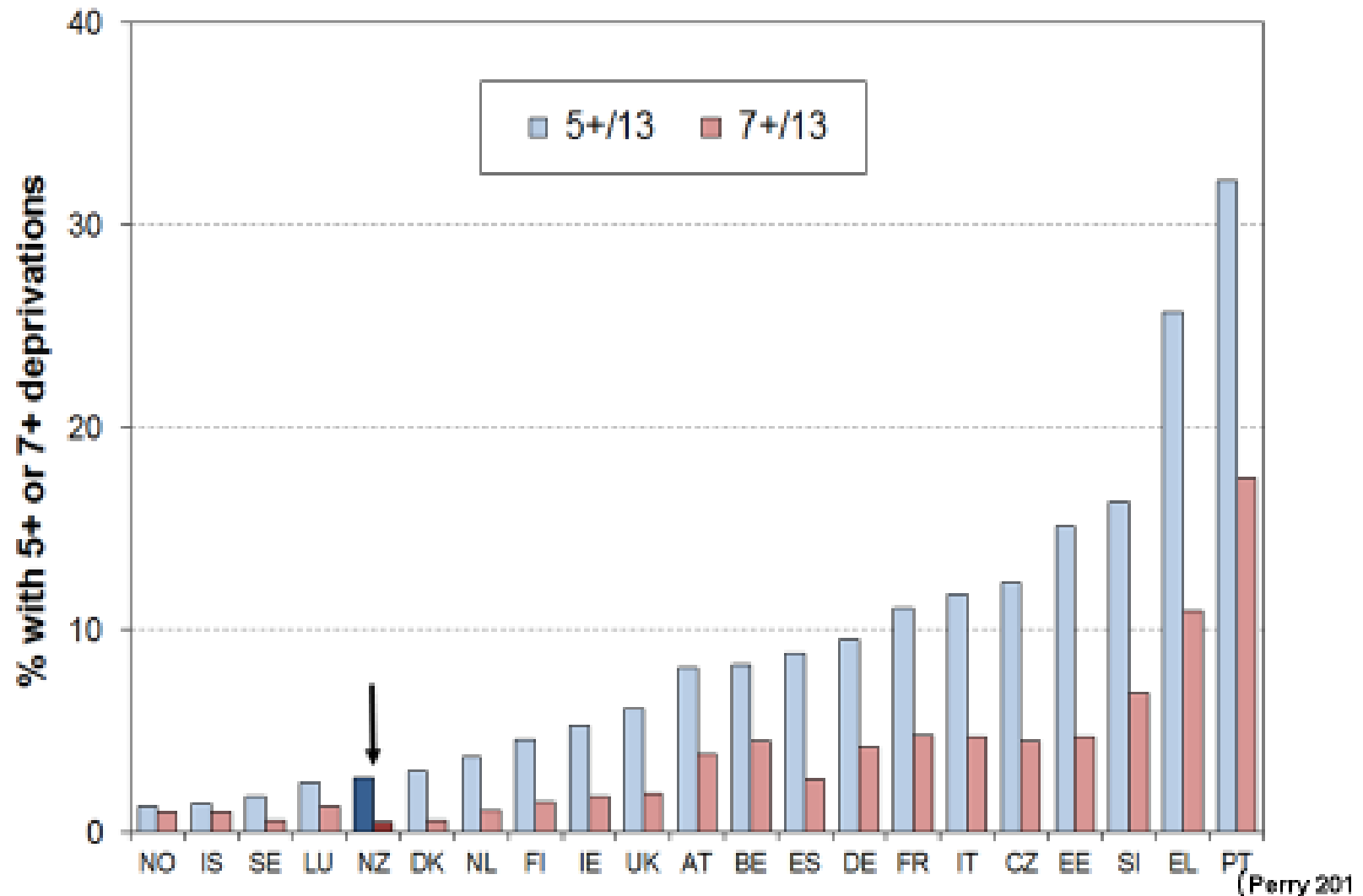
The poor used to be the old



Can we do it- yes we can!
National Superannuation
1976



**Material deprivation rates (% with 5+ and 7+ enforced lacks),
EU-13, those aged 65+**



IS PRIVATE CHARITY THE ANSWER?

**Thousands of kiwi kids
live in poverty.**



For \$15 a month you can give them the basics.

Join online now at www.kidscan.org.nz



The First 1000 Days | Johan Morreau | TEDxTauranga



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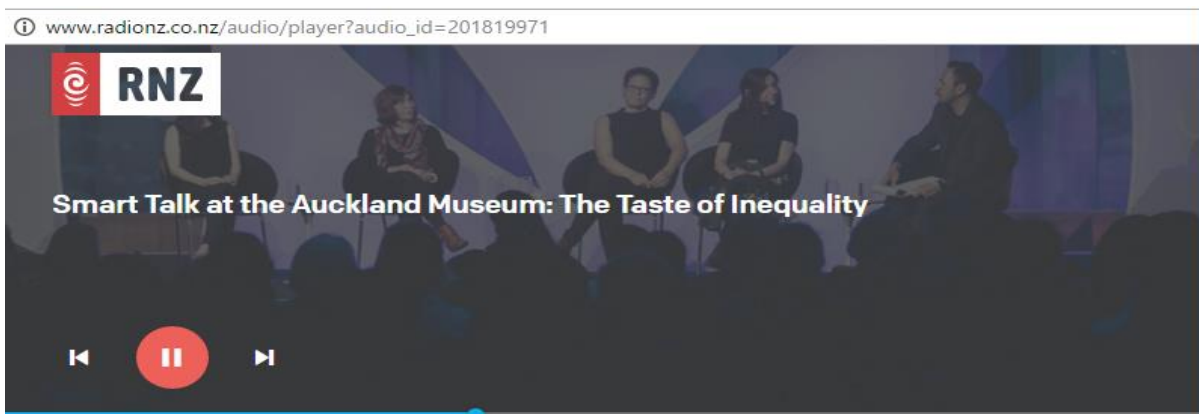
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Published on Oct 3, 2016

How important are the first 1000 days of a child's life?

The most important, according to Dr Johan Morreau, a paediatrician of 30 years who has seen it all.

<https://youtu.be/K1slVo3BNtM>



<http://www.radionz.co.nz/national/programmes/smarttalk/audio/201819971/smart-talk-at-the-auckland-museum-the-taste-of-inequality>