CHILD POVERTY ACTION GROUP

Cut Price Kids:

Does the 2004 'Working for Families' Budget Work for Children?

Susan St John

David Craig

Child Poverty Action Group (Inc) is a non-profit group, formed in 1994 and made up of academics, activists, practitioners and supporters. CPAG, in partnership with Maori, advocates for more informed social policy to support children in Aotearoa New Zealand, particularly the one-third of New Zealand children who presently live in relative - and occasionally - absolute poverty. CPAG believes this situation is not the result of economic necessity but is due to policy neglect. Through research and advocacy, CPAG highlights the position of tens of thousands of New Zealand children, and promotes public policies that address the underlying causes of the poverty they live in. If you are not already supporting CPAG and you would like to make a donation to assist with ongoing work, please contact us at the address below or through our website: www.cpag.org.nz .

Other publications in this on-going series of monographs about government policies and their impact on children:

Our Children: The Priority for Policy **(2001, 2003)**

Room for Improvement: Current New Zealand housing policies and their implications for our children. **(2003)**

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Preface

At long last the government has announced a policy package to address child poverty. However, serious design flaws within the package leave around 175,000 of the country's poorest children with very little help.

In the annual Budget delivered on 27 May 2004, the Labour government unveiled its long-awaited family assistance package. In the preceding months, after five years in power, enjoying the best surplus for decades and a strong economy, the government had promised a major boost to family assistance. With three out of every ten New Zealand children living in poverty, a major boost was needed, and as soon as possible.

What the country got was, on the surface, generous. The "Working for Families" package signals the first major redistribution of income in favour of poorer New Zealanders in 30 years. At long last the government has recognised the existence of child poverty and announced a policy package which starts to address the issue.

However as this report shows, serious design flaws within the package leave around 175,000 of the country's poorest children with very little help. While "Working for Families" gives many families on borderline incomes a welcome financial boost, it also entrenches an underclass even further by leaving the most vulnerable behind; even worse-off than before, relatively-speaking. In the interests of these children, and for the well-being of New Zealand society, Child Poverty Action Group urges the government to reconsider several aspects of Working for Families. This package must not be seen as the only or the last step that needs to be taken.

Since its inception in 1994, New Zealand's Child Poverty Action Group has promoted and researched better policies for children, including improved family assistance payments and housing assistance, as fundamental ways to alleviate child poverty. Unfortunately, where income for children in poor families is concerned, it has been 10 years of largely pushing water uphill.

In strongly emphasising work as the way out of poverty and failing to address child poverty as an explicit policy goal, New Zealand is increasingly out of touch with comparable countries like Australia and the UK.

CPAG's two previous publications: *Our Children* and *Room for Improvement* have extensively documented the nature of child poverty in New Zealand. CPAG is now pleased to publish this third report which provides critical analysis of family assistance in New Zealand, and the directions being taken over the next three years through the Working for Families package, with clear recommendations for improvements.

The authors are well qualified to provide this critique. Dr Susan St John is a senior lecturer in economics at the University of Auckland with an extensive background in the economics of family incomes and social policy. Dr David Craig is a senior lecturer in sociology at the University of Auckland with research interests in social inclusion, poverty reduction and public policy.

The authors show that in strongly emphasising work as the way out of poverty and failing to address child poverty as an explicit policy goal, New Zealand is increasingly out of touch with comparable countries like Australia and the United Kingdom. Wisely, the Labour government has eschewed the extremes of "workfare" as found in the United States, where sole parents are driven into work with even less regard for children's needs than here. But, as the authors show, the New Zealand government has sought to alleviate child poverty primarily among families in work, while many children in benefit-dependent families remain in poverty without significantly improved assistance. This, when for the first time in decades, New Zealand can make choices about where to spend its significant budget surpluses.

CPAG acknowledges the importance of paid work: it provides the foundation of prosperity for most New Zealand families and improved work opportunities in a growing economy are to be welcomed. But not all parents can perform profitable work or work full-time, especially when their children are young and have high demands. In many situations, working may adversely affect the children and fail to provide them with the security they need. Sickness and disability of either parent or child, all too common, can limit the capacity for work still further.

CPAG is most concerned by the lack of immediacy in the package, given that the needs of so many poor children were clearly urgent. A formal letter was written to the Minister of Finance, followed by another, backed by many social policy agencies and groups such as the Paediatrics Society, the Public Health Association and the Institute for Public Policy.

The three reasons for the reluctance to provide immediate assistance were given in a reply from the Acting Minister of Finance (Mallard, 2004). They were:

- the need to maintain fiscal responsibility
- the administrative difficulties of implementation [of the CPAG suggestions]
- the need to emphasise work incentives

The position taken by the government was made clear:

> *"Whilst it is true that Budget statements alluded to the goal of reducing poverty, the overriding message the government wished to convey in outlining the Working for Families package was the need to provide incentives for families with dependent children to enter and remain in the workforce. This we believe is the most effective way of reducing poverty."*

"…the overriding message the government wished to convey in outlining the Working for Families package was the need to provide incentives for families…to enter and remain in the workforce."
– Trevor Mallard

CPAG views this "work first" approach to child poverty as unacceptable, especially as the current situation follows years of neglect. Disturbingly, the letter concludes:

> *"…although Family Support increases do not apply until April 2005, great care was taken in developing Working for Families to ensure that nobody was worse off as a result of the changes."*

CPAG believes that a significant, sustained, immediate and real redistribution to all poor children was and is still required, and that for some poor children to be made "no worse off" in their dire poverty is unacceptable.

It is easy for the grim, shocking consequences of poverty on individual human beings to be buried by the welter of faceless statistics, and yet it is important that they are known and not forgotten by policy makers and the public in general. One of the strengths of this report is its reminder about this human toll, provided by stories about life in poverty, collected by doctors, teachers and social workers.

In urging the government to take up child poverty issues specifically and in their own right, CPAG also urges adoption of a courageous long-term vision which will prioritise the security and future of the most vulnerable New Zealanders.

Acknowledgments

CPAG thanks Rachel Somerfield for managing this challenging project and Janet McAllister for her discerning editing and design. We also thank CPAG's incomes committee, Donna Wynd, Dr Steve Poletti, and Associate Professor Mike O'Brien. Also thanked for valuable input are Dr Brian Easton, Graham Howell, Gerry Cottrell and Gerry Walker; and Dr Nikki Turner, Major Campbell Roberts and Therese Ireland who provided many of the stories which support the bare facts. Particular thanks are due to Professor Innes Asher and Chris Slane for his kind permission to use his cartoon on the cover. None mentioned here has responsibility for the text, which remains that of the authors.

Executive Summary

1. **The 2004 Budget delivers too little, too late, for around 175,000 of New Zealand's poorest children.**

- Working for Families is a welcome first step, and represents a very significant redistribution of money in favour of low income working families with children. But the package has major deficiencies, and must be significantly improved.
- The package leaves some 175,000 of the poorest children with little increase in their income for three more years, because the package gives to many families with one hand (increasing family support) and takes from them with the other (reducing core and special benefits).
- Many of the poorest families will receive income increases of less than $10 per child per week, or in some cases even nil net gains to income until 2007, when, depending on policy conditions, they will still get very little (just $10 more per child per week).
- The package delivers very little to the poorest at a time when New Zealand is booming, enjoying record budget surpluses and low unemployment. The government is able to put billions aside for the future for retired baby-boomers and pays wage-linked universal superannuation when poverty among old people is very low indeed.
- Even in these boom times of high employment, this report shows that the poorest families are really struggling.
- Much more can and should be done **now** for New Zealand's 175,000 poorest children.

2. **Working for Families contains an undue, excessive emphasis on work, at the expense of the wellbeing of the poorest children, and the country's future workforce.**

- By narrowly targeting its rewards to working families, and by its heavy emphasis on creating a large gap between working families and families with benefit income, the policy neglects the poorest in favour of those who are already better off.
- The way the new In Work Payment is designed will mean many of the poorest families are deliberately excluded from one of the main package benefits. In terms of reducing poverty, this means it does least for many of the poorest families.
- Non-working families are also excluded from the income guarantee of the enhanced Family Tax Credit.
- While work is very important for reducing poverty and increasing overall wellbeing, a "work first" policy is not sufficient to address child poverty. Reducing child poverty needs specific, focussed policy, where children are assisted regardless of their parents' employment status.
- An undue emphasis on work first makes many of our poorest children – those whose parent(s) are out of work or only working part-time - even more vulnerable, at what is already the most vulnerable time of their lives. In times of downturn, children whose parents lose their jobs are also affected.
- The work first policy underestimates the value of investing in our future workforce - vital to the long-term health of the economy.
- The package pushes the already entrenched, heavy emphasis on work in New Zealand's approach to poverty (work first, narrow targeting) towards new extremes.
- For child poverty to be adequately addressed, the In Work Payment must be de-emphasised; universal and child-poverty-elimination based approaches to family income must be reinforced, and poor families must be allowed to keep more of their gains from part-time employment.
- There are important lessons to be learnt from both the Australian and the British approaches to family assistance and child poverty.

3. **Even when fully implemented, Working for Families will barely achieve catch-up for many families. After years of neglect of child and family poverty, the Working for Families package risks powerfully entrenching the existing patterns of poverty and discrimination.**

- Repeated failure to adjust family assistance for inflation, indirect tax increases (GST, petrol) and ongoing undermining of universal family benefit-type assistance means support for our poorest families has been eroding for decades.
- Poverty has become entrenched, especially among sole parent, benefit dependent, Maori and Pasifika families. Already, more than half of these families live in poverty.
  - The package discriminates against many of the poorest children simply on the basis of their parents' income source.
  - Since single parents are given the most onerous work requirements in Working for Families, the package further discriminates against sole parents and their children.
  - Since a disproportionate number of these poorest children are Maori, this package further entrenches long established disadvantages and inequalities.
  - The net effect of Working for Families, surely unintended, is an unacceptable triple discrimination against sole parent, Maori and benefit-dependent children. Whatever the virtues of work over benefit income, these children are too important to be left in poverty.

Recommendations

1. The government must adopt a specific child poverty reduction policy, which has robust and substantial strategies to relieve child poverty and does not discriminate on the source of family income.
2. In particular, it must produce a much more plausible policy for lifting the most marginal children out of poverty, and not just those whose parents are in work.
3. Clear goals and targets for reducing child poverty and finally eliminating it are required. CPAG suggests that by 2007 the numbers of children living in poverty should be halved and that child poverty should be eliminated by 2015. Measures of child poverty should include not just bald number counts of children below a particular poverty line, but also a range of markers of poverty such as foodbank use. These should be included in the indicators of social wellbeing in the Ministry of Social Development's Social Report. Other measures to increase engagement and accountability around child poverty outcomes should also be considered (see report conclusions).
4. In recognition of the need for immediate attention to child poverty, the Family Support increases scheduled for April 2005 should be brought forward so that poor children in all families gain some immediate benefit. This payment should be backdated and apply for the full 2004/5 year.
5. The principle that all children should be treated the same must be reaffirmed. The existing Child Tax Credit and the new In Work Payment which replaces it are discriminatory and perpetrate income inequalities. They should be de-emphasised or preferably abandoned. The money saved should then be used to further strengthen the family assistance package. In light of the preceding recommendation, an immediate improvement could be achieved by adding the Child Tax Credit amount of $15 per week to Family Support for all low income children for the 2004/5 year.
6. Means of providing suitable work incentives which do not discriminate against poor children should be investigated, such as those found in Australia and the United Kingdom.

7. Increased real redistribution to significantly improve the position of the poorest children in families on benefits is required. Specifically, the child-related part of core benefits and student allowances should be added to the core benefit for parents, rather than being abolished.
8. The inclusion of Family Support in the income counted against the entitlement of the Special Benefit (effectively reducing the Special Benefit) should be abandoned. The new Temporary Additional Support that replaces the Special Benefit should be reviewed and all adverse income impacts on children reversed. Moreover, the fact that so many need hardship assistance shows that basic benefits are too low. Benefit levels themselves should be increased.
9. A concerted effort is needed to reduce the damaging influence of other factors on child poverty, and to enable groups and agencies to work together on the big picture issues. For example, action is required to:
    - enable access to appropriate, adequate and affordable housing
    - reverse the growth of unmanageable household debt
    - limit the growth of gambling opportunities
    - ensure full access to free healthcare and disability services for all children under 18 years of age
    - increase funding and access for well child services and early intervention services
    - increase the resources (especially teachers) of schools in poor areas

1. Introduction

"On Monday one of our social workers made a visit to a family living in a 1920s, extremely tired bungalow. Not painted for over at least twenty years, many of the weatherboards were badly rotten, while others just didn't exist. The roof, if you call it a roof, was just one mass of rust. Inside she found a house in appalling condition. Wet internally, covered in mould, walls that look like they could fall down. In looking through the house she didn't go into the bathroom because she was concerned she would have fallen through the floor. The house was the home of Mum and Dad and five children. One of the children had rheumatic fever while another has eczema covering her whole body.

(Roberts, 2004)

In many OECD countries, child poverty has been a persistent problem despite growing affluence (UNICEF, 2000). New Zealand is no exception, having seen alarming growth in child poverty over recent decades. In this report, we examine the nature and extent of child poverty in New Zealand, and consider the various approaches taken over time by the New Zealand government to financially assist families on the margins of poverty. Against this background, we consider the 2004 Working for Families package, and the impact it will have on child poverty in New Zealand. There is a substantial amount of new spending which will benefit many 'working' families, some by $150 or more a week. However we consider that, even when fully implemented in 2007, Working for Families will not actually work well for many of New Zealand's poorest children. In terms of lifting families out of poverty, Working for Families does the least for the most marginal families.

There is a substantial amount of new spending which will benefit many working families, some by $150 or more a week.

Ann's story illustrates just how little Working for Families does for some children:

"Ann is enduring a bleak winter as a sole parent living in Manurewa. She struggles to provide for her two young children on a DPB with Family Support and the Accommodation Supplement amounting in total to $478 per week. After rent of $280 is paid, she has just $198 left or $66 per person for the week. She is paying, like many sole parents, $20 a week in debt repayment to WINZ, and has needed a Special Benefit of $45 to help out. The 2004 budget holds nothing for her for many months. In April 2005, after her core benefit is reduced and Family Support increased, she will get an extra of just $9.50 per child per week. Worse still, as a result of changes to her Special Benefit, this may well fall to under $3 per child. She gets nothing else for two years, then she will get another $10 per child in 2007."[1]

However, in terms of lifting families out of poverty, Working for Families does the least for the most marginal families.

As **chapter 2** of this report shows, Ann is not alone. The incomes of large numbers of New Zealand families have not kept pace with inflation, let alone general growth in living standards. Over the years, patterns of poverty have shifted away from older people to include more of our children. More and more families, especially single parent families and families with one or more adults out of work, are finding their income inadequate to meet housing, food and other costs. As this happens, they are

[1] The is a composite example based on the scenario for Ann in the Working for Families fact sheets, clients in the experience of the Manukau Salvation Army and the detail on the Special Benefit in the cabinet papers (Ministry of Social Development 2002-04, May 04).

moved into increasingly marginal financial situations – for example, falling into debt and living in substandard housing like caravans - where their problems, and those of other poor families living around them, compound.

While income is not sufficient in itself to ensure children have all their material needs met, these needs cannot be met without it.

Here, as we emphasise, and as all agencies dealing with children in poverty will attest, income is the bottom line in issues of poverty. While it is not sufficient in itself to ensure children have all their material needs met, these needs cannot be met without it. Income, too, is regarded as the primary determinant of wellbeing outcomes in the social and health inequalities literature discussed in **chapter 3**. But increasingly, a family's income comes from many sources: wages and earned income, family assistance, housing assistance and other in-kind support (eg childcare subsidies). Together, these give many children the primary basis of their wellbeing and ultimately inclusion in our society. Children are vulnerable to changes in any of these income sources. Income from work is obviously important, but it is crucial that it is not seen as the sole or even the primary basis of child welfare.

The problem, as **chapter 3** points out, is that in New Zealand we have consistently favoured work, or employment, as the fundamental basis for welfare and wellbeing. However, there are important reasons why a policy to address child poverty should be pursued in its own right, and why, correspondingly, it should not become completely entangled with (or subordinated to) other policy objectives, whether for work, or even for families.

Across OECD countries, family assistance has become an increasingly important mechanism for improving income adequacy for children. **Chapter 4** documents the history of family assistance in New Zealand and the dramatic and dreary decline in its purchasing power, for all children but especially the neediest. It also charts the gradual displacement of a focus on child wellbeing by a focus on workforce inclusion, and the ways in which that process leaves large numbers of New Zealand children unacceptably poor, and inexcusably excluded.

…the reduction in child poverty has to be a central policy goal, separate and distinct from policies designed to encourage work.

This report argues that the reduction of child poverty has to be a central policy goal, separate and distinct from policies designed to encourage work. In failing to devise such a policy, as **chapter 4** shows and **chapter 7** revisits in detail, New Zealand is becoming increasingly out of step with comparable countries. In the United Kingdom, child poverty was identified in 1999 as a scourge to be eliminated by 2020. The UK government has put in a substantial amount of money to support the rhetoric and is on track to achieve the short-term goal of reducing poverty by one quarter by 2005. In New Zealand in 1999, the newly-elected Labour/Alliance government might have been expected to follow the UK government's lead on child poverty, given the two governments' ideological similarities. Surprisingly, decisive measures to improve family incomes and reduce housing and health costs have been slow to emerge. This relative inaction is in spite of well-documented evidence that child poverty has risen considerably since the late 1980s.

Over time in New Zealand, there has been a history of partial policy responses, typically under-funded, while other reforms are frequently claimed to have spin-off effects which address family financial hardship. Along with an attempt to improve work incentives by introducing the Child Tax Credit for families who do not receive a government benefit, the 1996 Budget delivered some minimal catch-up in family assistance, but there was nothing further at all for children in the next seven Budgets. Nor was family assistance ever inflation-proofed. Then in 2003, there was next to nothing: a tiny crumb in the form of minor changes to family assistance thresholds.

The long-awaited reform of family assistance was finally delivered in the Working for Families package in the 2004 Budget, discussed in detail in **chapter 5**. This budget, at last, presages a very significant policy shift towards redressing the past erosion in family assistance. There are also some excellent improvements around abatement of the Accommodation Supplement and income thresholds for Family Support. It is also welcome that inflation adjustment will be in place for all aspects of Family Support from 2008 so that, in the future, catch-up spending (needed to offset inflation) will be automatic and no longer the subject of debate and confusion. However, it would be both fairer and more effective if the inflation adjustment was introduced sooner and backdated, to make some reparation for the last two decades of Family Support erosion, which helped tip many families into a vicious cycle of debt.

This budget, at last, presages a very significant policy shift towards redressing the past inflation erosion in family assistance.
It is welcome that inflation adjustment will be in place for all aspects of Family Support.

And, as this report highlights, the 2004 Budget is again focussed on adult workforce inclusion and in this fails the poorest children, whose needs – such as those caused by disabilities or health problems – may prevent their parents from working fulltime, or whose parents may have difficulty entering the workforce for other reasons. While Working for Families will, eventually, significantly reduce the numbers of children in poverty, especially in families where one or both parents are in work, it will leave many children behind. The package is to be phased in over three years with nothing substantial allotted to meet the immediate and urgent needs of families in the current financial year. Unfortunately, too, the opportunity to remove discrimination against some hundreds of thousands of New Zealand children whose parents draw benefits has been ignored. These poorest of New Zealand's children have missed out on the Child Tax Credit since 1996 and, from 2006, will also be excluded from the new, more generous In Work Payment that replaces it.

The In Work Payment, a core and we think perverse element of the 2004 budget, receives extensive critical discussion in **chapter 6**. The exclusion and marginalisation of children that the In Work Payment implies should not be acceptable in New Zealand. While the importance of full employment for a fairer income distribution is undeniable, the experience of the last few years suggests that child poverty cannot be remedied by relying on a trickle-down effect from growth in the economy and/or the provision of work incentives alone. In short, while employment inclusion is necessary to address child poverty, it is not sufficient. For children whose parents are on benefits, a work-focussed policy is powerfully discriminatory, and deeply exclusionary. In the recession that is likely to follow the strong economic boom, low income families pushed out of work and off the In Work Payment will also experience the lack of security inherent in this work-based focus.

The exclusion and marginalisation of children that the In Work Payment implies should not be acceptable in New Zealand.

There are, however, alternatives. As we show in **chapter 7**, New Zealand's welfare policy makers would do well to closely consider features of both the Australian and British approaches to this same issue. Again, we can and should do better in addressing child poverty: leaving some 175,000 New Zealand children behind in a major policy initiative like Working for Families is simply not good enough.

Leaving some 175,000 New Zealand children behind in a major policy initiative like Working for Families is simply not good enough.

The conclusion of this report is that the goal of eliminating child poverty, promised by the government in the Agenda for Children in 2002, has been subsumed into the narrower goal of rewarding work and independence from the benefit system. There are high social costs of this work-based focus in which too many children are denied the resources they need to develop into healthy adults and to reach their full potential as productive citizens. Of equal concern is the invisibility of the price paid by poor children. We conclude that it is time for this invisibility to end: children and the redressing of the poverty which engulfs them must be made explicit policy priorities.

In the Ministry of Social Development's own words,

> *A comprehensive programme to end child poverty requires a social assistance system that ensures families with children have adequate income to meet their needs.*(Ministry of Social Development, 2002)

2. Children in poverty in New Zealand now

In one secondary school, a seemingly outgoing and vivacious 14 year old boy managed to mask the fact that he was hungry and exhausted until he kept repeatedly fainting in class. The school counsellor discovered that there was no food in his house and he was starving. Each day he would walk 15 kilometres to school, because he did not have the bus fare, without breakfast or lunch to keep his adolescent body going. The family household and his many younger siblings were supervised by his intellectually disabled older brother while both his parents worked at several cleaning jobs.

Therese Ireland, Auckland educator

Those stubborn, widened gaps

"[The rich and the poor are] two nations, between whom there is no intercourse and no sympathy, who are as ignorant of each other's habits, thoughts and feelings, as if they were…inhabitants of different planets."

Benjamin Disraeli, 19th century British prime minister

In spite of strong economic growth and falling unemployment, the picture for many New Zealand children remains bleak. The widening gaps in income and wealth distribution over the last 20 years suggest that New Zealand has essentially become two parallel societies. Government research itself highlights these inequalities:

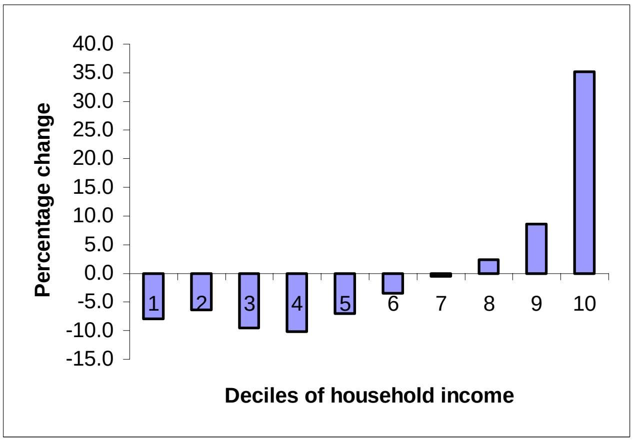
Some social outcomes have not improved. While average living standards are rising and contributing to improvement in other areas of wellbeing, the distribution of economic resources has deteriorated to some degree. Income inequality rose sharply from 1987 to 1991, and has not fallen significantly since then.

(Ministry of Social Development, 2003)

Over the past 20 years, inequality has grown much more in New Zealand than in most other OECD countries.

This widening of the gaps is of long standing, but it has been especially marked over the last 20 years, when inequality has grown much more in New Zealand than most other OECD countries. This growth in income inequality is illustrated in figure 1. Changes to income levels (after taxes and social welfare benefits, and adjusted for family size and inflation) are shown for households ranging from those in the lowest or poorest decile (one) to the highest or richest decile (ten).

Figure 1: Percentage change in average household equivalent disposable income by decile, 1982 – 2001 (in $2001)



Decile 1 – poorest 10% of population
Decile 10 – richest 10%

Source: (Mowbray, 2001) updated by MSD 2004

We can see that the income of the top decile of New Zealand households improved dramatically, by 35% over the 1982-2001 period, while the income of the lowest five deciles, where most young children are located, fell by 8% on average. These families include many in which the adults are working and are independent of the state as well as those receiving benefits.

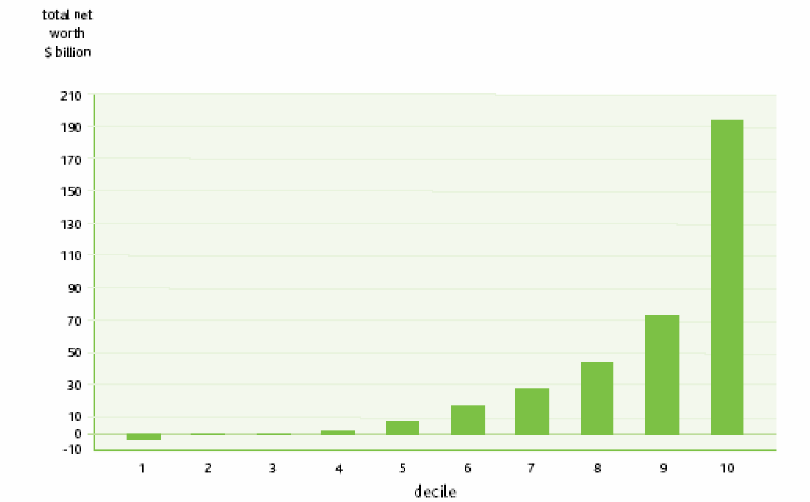
It is true that strong economic growth, based on rising world demand for commodities, high immigration and a strong construction boom, has produced more jobs since 2001, and that when the figures for 2001-2004 become available some improvement in the lower deciles in figure 1 should be observed. But the data will still tell only a partial story, as they don't take into account the cost of housing for poorer households. Housing problems in Auckland are especially acute (Johnson, 2004). The 2004 Social Report shows that affordability of housing for the general population has markedly worsened since the late 1980s.

> *In 2001, 35% of children under 18 years were in households with housing costs exceeding 30% of income, a threefold increase since 1988.*
>
> (Ministry of Social Development, 2004b)

Even the dramatic picture of income inequality given by figure 1 doesn't give a clear picture of the wide gap in the wealth distribution, as the two lowest deciles have negative wealth (debt) while the next three deciles have very little in the way of wealth holdings. Home ownership itself, one of the most important sources of security and stability for families with children, is on the decline. Between 1991 and 2001 home ownership rates fell from 74% to 68% with the change particularly acute among younger age groups and sole parents (Skilling & Waldegrave, 2004).

> *The 2001 Household Savings Survey indicates that holdings of wealth in New Zealand are highly concentrated. In 2001, the wealthiest 10% of the population held over 50% of total household wealth, or $190 billion out of a total household wealth of $367 billion. In contrast, the bottom 10% held negative wealth of -$3.3 billion (where liabilities exceed assets), and the bottom half of the distribution held less than 3% of total household wealth.*
>
> (Skilling & Waldegrave, 2004)

Figure 2: Total Net Worth of New Zealanders by decile, 2001
(1 – poorest, 10 – most wealthy)



Source: (Statistics New Zealand, 2002)

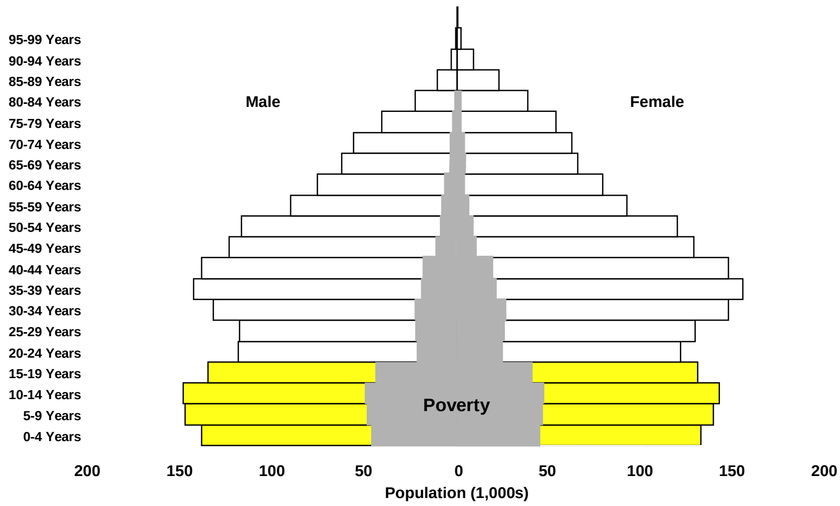
The de-greying of poverty

It used to be that poverty was associated mainly with the elderly…Now, after housing costs are allowed for, children are more likely than other groups to live in poverty.

During much of the twentieth century, poverty in old age was a major social problem in New Zealand. In the 1960s and early 1970s, poverty was associated mainly with the elderly, as families and children were well supported, while pensions were low.

This situation is now reversed: the introduction of a basic but adequate universal pension in one form or another since 1977 has been critical for the old. In asset terms, the elderly are likely to be better off than many younger families due to much higher rates of homeownership. Now, after housing costs are allowed for, children are more likely than other groups to live in poverty. Figure 3 shows an estimate of the distribution of poverty in New Zealand. (It should be noted that this figure is an estimate only as it is presented on an individual age basis and there is no official information available on poverty in the group aged 20-64.)

Figure 3 Estimated distribution of poverty by age in New Zealand 2001



Source: (Asher, 2004)

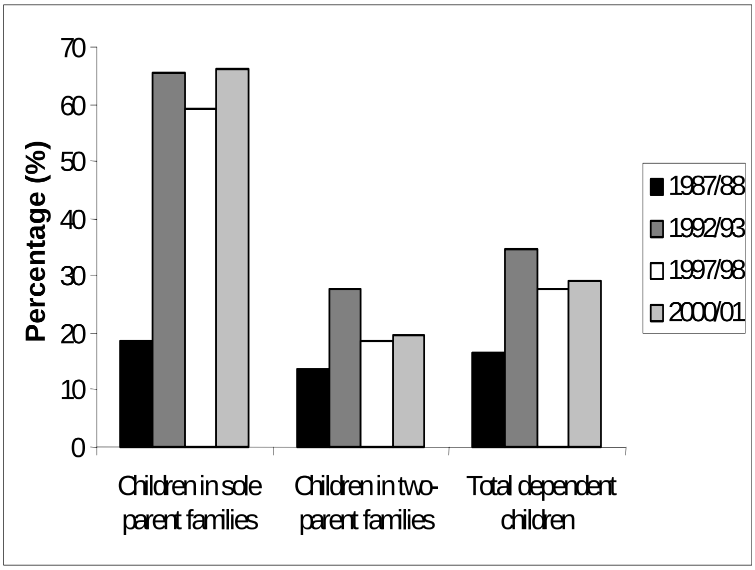
The working definition of the poverty line used by the Ministry of Social Development is 60% of the disposable median family income, after housing costs have been taken out and the size of household taken into account. This calculation takes some account of the basic resources needed by a family to just get by.

In 2001, two thirds of children in sole parent families were in poverty.

To give some idea of what this means in today's terms: a family of four – Mum, Dad and two kids – need about $17,000 after tax and housing has been paid for to be above the poverty line. So if this family was renting a three-bedroom house for an average South Auckland price of $265 per week, they would need to have at least $30,780 net to be out of poverty. This is well beyond possibility for many families who subsist on low wages, casual work and benefits. (Appendix 2 discusses issues around uses of poverty lines in New Zealand.)

Figure 4 shows that a big increase in child poverty figures followed the recession of the early 1990s and substantial benefit cuts of 1991. While the 1998 figures show some improvement, the picture had worsened again by 2001. In that year, 29% of children, or nearly one in three, were in families experiencing poverty (Ministry of Social Development, 2004b). But the situation for benefit-dependent families was much worse. Figure 4 shows the dramatic jump for children of sole parents in 1991, with 66% of them still in poverty by 2001. Table 1 shows the percentages of the total population, and of families with different income sources that live in poverty.

Figure 4: Children below the poverty line used by MSD



Source: (Ministry of Social Development, 2004b)

Table 1: Proportion of population with net-of-housing-cost incomes below 60 percent of median (benchmarked to 1998), 1988, 1993, 1998 and 2001

		1987-88	*1992-93*	*1997-98*	*2000-01*
Total population		12.7	26.7	22.0	22.6
	Total dependent children	14.6	34.7	27.5	29.1
	Children in sole parent families	**18.5**	**65.6**	**59.2**	**66.3**
	Children in two-parent families	13.8	27.5	18.5	19.7
	Total economic families	14.0	28.0	23.2	23.2
*Economic families**	With one dependent child	11.5	30.1	25.2	26.5
	With two dependent children	11.7	32.9	23.5	26.0
	With three or more dependent children	18.6	40.8	30.7	32.7
	Sole-parent families	**17.4**	**62.5**	**51.9**	**59.4**
	Two-parent families	12.4	25.1	17.0	17.5
Economic families	**With any Maori adult**	**14.0**	**41.0**	**31.2**	**32.0**
	With any Pacific adult	**24.4**	**48.9**	**44.3**	**40.0**
	With any “other” ethnic grp adult	**23.6**	**42.8**	**53.7**	**35.6**
	With any European adult	12.6	23.3	18.5	18.7
Economic families with main source of income	New Zealand Superannuation	7.0	8.4	9.9	6.5
	Income-tested benefit	**26.0**	**74.3**	**61.7**	**61.6**
Housing tenure (households with one family unit)	Rented	n.a.	43.3	37.2	33.5
	Owned with mortgage	n.a.	24.3	15.3	17.1
	Owned without mortgage	n.a.	4.9	3.7	5.6

Source: Table 18, (Ministry of Social Development, 2004a)

**** Economic families are used as the income-sharing unit here – see glossary***

Table 1 shows that 61.6% of economic families supported by an income-tested benefit are under the poverty line, compared to only 6.5% of those reliant on New Zealand Superannuation. Poverty in New Zealand is now very much a story of parents and their children on benefits or on low market incomes.

The implications are profound: young New Zealanders are now less likely than the general population to be safe, be in families in paid work and have an acceptable economic standard of living. This matters all the more because it is in these young years that long term paths to wellbeing are established:

> *…Evidence suggests that poor outcomes while young affect outcomes later in life: for example the cumulative impact of low incomes during childhood can be linked to poorer outcomes as an adult. This implies that current poor outcomes for youth could have significant policy implications for New Zealand in the future.*

(Ministry of Social Development, 2003)

Poverty in boom times?

> *Our budget manager this week was trying to help a mum who had no appliances left in her house. She had sold them all to a South Auckland loan shark so that she could pay for the food and power.*

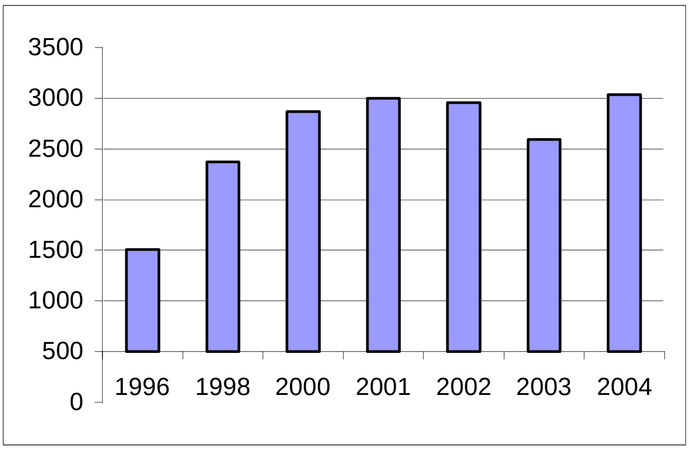
(Roberts, 2004)

For the first three months of 2004, the total number of Auckland City Mission food parcels increased by an enormous 40% compared to 2003.

As the economy has been particularly buoyant since 2001, one might think families should be getting their heads above water. But deregulated gaming (pokies) and finance industries (loan sharks, booming credit card debt) have cut swathes into many poorer families' budgets, while low wages, debt repayments, high rents and rising interest rates appear to have greatly reduced gains. Thus, many social agencies are finding the critical poverty issues for children and their families are worse, not better.

For example, the Auckland City Mission found the 2004 winter particularly grim. Since 1996 the demand for food parcels has doubled, as shown in figure 5. Figure 5 also shows that while demand dipped in the year to May 2003 as the economy improved, it rose sharply again in 2004. For the first three months of 2004, the total number of food parcels distributed increased by an enormous 40% compared to 2003, with a record forecast for the 2004 December year. These food parcels are not just the stop-gap tin of baked beans. They are serious attempts to provide sufficient food for an entire family for 3-4 days (Child Poverty Action Group, 2003).

Figure 5: Auckland City Mission Food Parcels 1996-2004 (Years ended May)



Source: Auckland City Mission

This increased demand is rarely due to poor budgeting or a lack of life skills; instead it directly reflects a lack of income and an accumulated debt. Families have been left with too little income for too long. While money is a critical issue and incomes must be increased, the problems are often so complicated that they will not be readily resolved just with more money alone.

In spite of the economic boom, many social agencies are finding the critical poverty issues for children and their families are worse, not better, due in part to the accumulation of debt.

> *Despite the reported economic boom in New Zealand, our core services are experiencing higher levels of demand than ever before. The increases indicate that the measures which determine economic growth clearly do not take into account the welfare of all members of our community.*
>
> Diane Robertson, Auckland City Missioner

Looking out to 2005, the economy is likely to have slowed from its high rate of expansion in 2004. Many low-income families will continue to fall behind the generally improving living standards. The factors include:

- higher interest rates
- higher property prices, rates and rents
- rising transport costs and electricity
- presence of children requiring time out of the work force and/or child care costs
- lack of policy attention to benefit rates and low minimum wage rates

New Zealand families and children: who are the poor?

To put the problem in perspective, we need to understand the overall makeup of the New Zealand population, and where children sit in this context.

Bringing the 2001 Census numbers up to date, figures for 2004 (Statistics New Zealand, 2004b) show the following age distribution of children and young people:

Age	Number
<5	282,550
5-9	290,530
10-14	311,450
15-19	302,300

In total there are 1,187,000 children and young people in New Zealand today. Most of the 15-19 group are still dependent on their parents, but following the convention that children aged 18 and over are not counted in official statistics as dependent, we estimate the relevant dependent child population to be 1,027,000.

29% of dependent children are under the MSD poverty line, about 300,000 altogether, including around 250,000 children under 15.

We have seen (figure 3) that 29% of dependent children are under the poverty line used by the Ministry of Social Development. This suggests that around 250,000 children under 15, and around 300,000 or so dependent children under 18, are currently in poverty. Those just above the poverty line do not necessarily have sufficient means to always manage well either.

Looking more closely at children under the age of 15, the 'Snapshot of Children' (Statistics New Zealand, 2004a) based on data from the 2001 census shows:

- In 2001, there was a total of 847,740 children under the age of 15, nearly a quarter of the population.
- While the majority of families with children (69 percent) were two-parent families, nearly a third (31 percent) were one-parent families.

- Rising numbers of children are of Maori and Pasifika ethnicity. Of those children that identified, 18 percent identified with more than one ethnic group in 2001. Proportions were as follows:
    - o European (75%)
    - o Mäori (24%)
    - o Pacific Peoples (11%)
    - o Asian (7%).

  (Note that because people could give more than one response these percentages do not add up to 100.)

  Forty percent of all babies born in 2001 were of Maori or Pasifika descent.

Approximately 150,000 dependent children (or 17% of all children), live in households with a gross income of $20,000 or less.

- Most one-parent family heads were aged 25 – 49 years. Only 1% of one-parent families were headed by an individual less than 20 years old.
- Approximately 150,000 dependent children (or 17% of all children), live in households with a gross income of $20,000 or less, and of these approximately two-thirds live in one-parent households.

Table 2 shows that 253,000 children (of whom 11% are dependent children aged 15-18) are in households supported by a benefit. Around 80% of these children are in families where there is only one parent. While some children in families on benefits may not be below the poverty line and some of those whose parents are in work are in fact poor, the incidence of poverty is very much higher for children in benefit families, especially sole parent families, which are often supported by the Domestic Purposes Benefit (DPB). Crucially, all of these children are excluded from: the minimum income guarantee of the Family Tax Credit, the Child Tax Credit, and as chapter 5 discusses, from the proposed In Work Payment that replaces the CTC.

Table 2: Families and children supported by a benefit as at 11 April 2003

Benefit type	Single one child	Single two child	Single three+ child	Couple one child	Couple two child	Couple three+ child	Couple without child	Total children	% of children
DPB related	49,653	33,560	20,869					189,815	75.0%
UB related	3,313	850	409	2,854	3,143	3,703	8,528	28,545	11.3%
Invalids Benefit-related	2,836	1,010	452	1,582	1,204	1,068	8,302	14,166	5.6%
Sickness Benefit-related	1,543	420	180	1,303	1,394	1,394	3,351	11,803	4.7%
Widows Benefit	1,027	615	385					3,605	1.4%
Emergency Benefit	866	331	223	221	158	162	2,346	3,413	1.3%
UB Youth	321	57	4	517	231	80		1,708	0.7%
Totals	59,559	36,843	22,522	6,477	6,040	6,407	22,527	**253,054**	100%

Source: Table 14 (Ministry of Social Development, 2004a)

Contact with the benefit system is now a common event for children. Ministry of Social Development research has found that more than half of all children born in New Zealand in 1993 had, at some stage, been in a family dependent on a primary benefit by the age of seven. At least one-fifth of all children born in 1993 spent at least five of their first seven years in families on benefits (Ball & Wilson, 2002).

The experience of a young family needing to access a benefit can be a deeply humiliating one, as an article in North and South shows:

> *I was pregnant with [our] third child… we'd used every last cent and had absolutely no money. I went into the local work and income office to apply for the dole. It was an awful experience- luckily [my husband] got work and we didn't need the benefit- but I swore I'd never go into that place again.*
>
> (Larson, 2004)

More than half of all children born in New Zealand in 1993 had been in a family dependent on a primary benefit by the age of seven. At least one-fifth of all children born in 1993 spent at least five of their first seven years in families on benefits.

Monitoring and targeting child poverty

Poverty lines are controversial and pose difficult measurement problems (Perry, 2004). They are a part of the necessary framework if we are to measure success in alleviating child poverty, but only a part. Appendix 2 discusses some of the ways poverty is measured in New Zealand and some of the complex issues involved.

Targeting child poverty, as the current government has certainly realised, requires acknowledging and measuring it. After years of official refusal even to use the word poverty in New Zealand policy documents, the Agenda for Children (2002) stated:

> *A comprehensive programme to end child poverty requires a social assistance system that ensures families with children have adequate income to meet their needs.*

The 2004 Budget was a watershed in acknowledging child poverty. The Prime Minister herself proclaimed that "the increases represented the biggest offensive in the war against child poverty in decades" (Clark, 2004). Because the 2004 Budget itself projects a decline in child poverty by 2007, it is now clear that attention will be given at last to the monitoring of poverty levels. This represents progress, but there is a lot of catching up to do.

The 2004 Budget projects a 30% decline in child poverty by 2007 - Prime Minister Helen Clark proclaimed that "the increases represented the biggest offensive in the war against child poverty in decades"

Simply, other countries have moved well ahead of New Zealand. In 1999 British Prime Minister Tony Blair made a promise: "Our historic aim [is] that ours is the first generation to end child poverty forever… it's a 20 year mission but I believe it can be done" (Blair, 1999). Since then, there has been a huge amount of attention paid to family incomes in the UK and billion of pounds have been spent on improving child tax credits to all low income families. The aim has been to reduce child poverty by a quarter by 2005, a half by 2010 and to eliminate it by 2020.

This is beginning to bear fruit, with progress towards achieving the goals at five years and many children lifted out of income poverty, but it is clear that it is a tough road requiring much more to be done if the goal of halving child poverty by 2010 and eliminating it by 2020 can be met (Falherty, Veit-Wilson, & Dornan, 2004).

In New Zealand, projections made in the 2004 Budget appear to see the Working for Families package reduce child poverty by either 30% or 70% by 2008, depending on the poverty line used (Cullen, 2004). But there are serious problems in taking comfort from these projections. They do not represent goals, but outcomes achieved under certain assumptions. We believe that outcomes should be monitored using the Ministry of Social Development's after-housing-costs working definition of the poverty line (see Appendix 2 for a discussion). Around 250,000 dependent children are in families on benefits and this report shows that the majority of these families do not get sufficient help from the package to make a real difference. We estimate that 175,000 or more dependent children (see table 3 below) will remain in poverty. And, as this report shows, these poor children are mostly those who were already the most marginal: children living in families receiving benefits, one parent families, and many Maori families.

Table 3: How many children live in poverty?

	Estimated numbers of dependent children (aged under 18)	Numbers of children aged under 15	Dependent children with parent(s) on benefits	Dependent children with parents in work
Total number*	1,027,000	884,000	253,000	774,000
Numbers under the poverty line (now)**	298,000	256,000	176,000***	122,000***

Numbers from Statistics New Zealand (2004b), Ministry Social Development (2004a)

****An estimate that assumes all children 18 and under are dependent and applies the 29% figure of dependent children in poverty (Ministry of Social Development 2004b)***

***** the work/benefits split is based on research by Krishan (2002)***

Encouraging evidence from the United Kingdom: more money does make a difference and child poverty is not inevitable.

In New Zealand, the lesson we can learn is that both political and public support for change is vital. It is clear from the UK experience that to make inroads into this problem, a sustained and generous programme of redistribution to families is essential with full political commitment. The adoption of a widely-understood official poverty line is part of this. The encouraging evidence is that more money does make a difference and that child poverty is not inevitable. (See chapter 7 for more detail on the UK treatment of children.)

Children below the poverty line: what families do they live in?

> *Another day, another social worker visited a family housed in a room created out of what was a porch. With the main dividing wall made of cardboard and a curtain, this five-months pregnant Mum is trying to care for her two children. They have all been victims of an abusive relationship. For this room she was paying $200."*

(Roberts, 2004)

Poverty is not just a sole parent problem (Child Poverty Action Group, 2003; Easton & Ballantyne, 2002): just over one half of all poor children are in two-parent families.

Researchers for the Ministry of Social Development have looked at the characteristics of children who were in families living below the poverty line (Krishnan, Jensen, & Rochford, 2002). Of poor children in families *on benefits* they found that 70% were living in sole-parent families and only 30% in two-parent families. However poor children in families *in work* were much more likely (81%) to be living in two-parent families with only 19% in sole parent families.

No doubt the government did not set out to discriminate in favour of two-parent families and against single parent families in this budget, but that is the net effect.

Thus children of sole parents living in poverty are much more likely to be reliant on a benefit whilst children of two-parent families living in poverty are much more likely to be supported by paid work. As we'll see, this fact has important ramifications when considering who will benefit from the Working for Families package. Because of this split, the Working for Families package discriminates much more powerfully than might have been expected against children in sole parent families. No doubt the government did not set out to discriminate in favour of two-parent families in this budget, but as we will see, when all is weighed up, that is the net effect.

Krishnan et al highlight the persistence and severity of poverty for children in families on benefits. They show that in the early 1990s the rise in poverty rates among children in families on benefits increased much more dramatically than for those in families in work.

The contributing factors were identified as

- cuts to benefits in 1991
- growth in unemployment
- escalation in housing costs (Krishnan et al., 2002)

The Salvation Army reports that 89% of the clients seen at its Manukau centre are in debt and that the percentage is ever increasing over time.

The dramatically extended 1991 benefit stand-down periods would also have exacerbated the poverty problem, as would the high debt repayments that feature in many poor families' budgets. The Salvation Army, for example, reports that 89% of the clients seen at its Manukau centre are in debt and that the percentage is ever increasing over time. The average level of families' debt repayment to government agencies is $35 a week (Manukau the Healthy City's Child Advocacy Group, 2004).

The debt situation among families is now entrenched and, for many, intractable as they pay very high interest on their loans. This is exacerbated by increasingly aggressive marketing by fringe lenders who provide expensive credit to those unable to borrow from normal lending institutions.

(Source: Ponsonby Instant Finance, 2001)

Poverty seems to be of particular significance to young families where there is a child under five.

Krishnan et al also note the marked shift from 1988 when the majority of poor children (68%) were reliant on market income. In 1998, they found only 41% were in families where the main income source was paid work and that 59% of poor children were in benefit dependent families. It is likely that today's figures are similar, if not more biased towards those on benefits. Applying these percentages to the numbers of children and dependent young people in the population, 176,000 poor children are in families on benefits, and 122,000 are in families supported by work (see table 3).

The age of children in benefit families suggests that poverty is of particular significance to young families where there is a child under five. Maori and Pacific Island children are over-represented in the poverty statistics, in part because they are a younger population. Over fifty percent of poor children nationwide are of European descent but in some areas such as parts of Auckland, Northland and Waikato, Maori and Pasifika children predominate.

Krishnan et al used the Standard of Living survey (Ministry of Social Development, 2000) to see how many restrictions in 'key consumption' items – such as food, housing and heating - were reported by poor families compared to those above the poverty line.

They found that a significantly higher percentage of poor families economised on items such as:

- food - especially meat, fresh fruit and vegetables
- clothing - by buying less, using second-hand items, doing without wet weather gear and suitable shoes, and by relying on gifts
- heating - by staying cold
- transport and social contact – by cutting back on trips to the shops, to see friends
- housing - making do with too few bedrooms, children sharing beds
- schooling – by cutting back on outings and being unable to pay for extras such as music and sport

On this measure, poor children whose parents were on benefits were likely to be worse off than those who were also poor but in families supported by work. In part this is because poor children in benefit families are poorer - 18 percentage points further below the poverty line on average than other poor families. (Krishnan et al p. 133)

> *The results demonstrate that there is considerable variation in the living standards of those below the poverty threshold, and suggest that poor children in families with government transfers as the main income source are a particularly vulnerable group and warrant a policy focus that recognises their multiple sources of disadvantage.*

(Krishnan et al., 2002, p118)

Because poor children in benefit families are the most vulnerable and deprived, a serious attempt to reduce child poverty requires that poverty in these families is addressed as a priority.

But it appears that even at the same level of income, if income is from a benefit then the children are worse off as measured by the number of indicators of material deprivation. That result is likely to be due to the characteristics that make some parents more prone than others to be on welfare (Mayer,2002). These characteristics may include ill-health, low education, depression and addictions, and leave the children exposed to disadvantage in multiple ways.

The conclusion of the Krishnan paper is that the poor children in benefit families are the most vulnerable and deprived. This being the case, a serious attempt to reduce child poverty requires that child poverty in these families is addressed as a priority.

Where do they live?

> *A mother, father, grandmother, uncle and three kids were living in a two bedroom house. The mother and father lived in the garage which has no insulation. They reported that it was warmer to sleep in their van than the garage – the family all suffered from recurrent attacks of asthma and chest infections.*

Dr Nikki Turner, Waipareira Health Centre, West Auckland

Rising income inequalities quickly map onto suburbs and neighbourhoods, meaning rising inequalities between locations. In New Zealand's economy, there are a number of 'sorting mechanisms' that move people, especially poor people, around a city. These mechanisms mean poor people are likely to end up living in poor areas, where they need to cope not only with their own problems, but with the problems of other poor families around them (Jargowsky, 1997). The housing market has been the most powerful of these sorting mechanisms. The poor have been subjected to market forces in housing: market rents for state housing (until November 2000) and the need to find accommodation on the rental market. During the worst days of market rentals for state housing, the numbers of children moving schools and homes many times in a year became a very real concern to educators and welfare agencies.

In response there has been limited central and local government commitment to housing the poor in good, stable locations with good transport and other access. The provision of income-related rents for state tenants (and building of more – although not enough - state houses) has helped some families. It has markedly reduced the 'churn' or turnover in state housing tenancy, for example in Waitakere from an incredible high of 30% per annum to 9.4% in 2003 (Waitakere Wellbeing Collaboration Project, 2004). This is good news for the children affected, as it means fewer interruptions to their schooling and relationships. But as overall house prices have spiralled, there has been no improvement in housing affordability, and growing waiting lists have shut many poor families out of state house tenancy. Especially in major urban centres, rental and property prices in central locations have risen particularly quickly.

As overall house prices have spiralled, housing affordability has not improved, and growing waiting lists have shut many poor families out of state house tenancy.

The effect has been to 'sort' poorer families further out to the edges of cities like Auckland. In Waitakere City, for example, the proportion of the population in Deprivation Index levels 8, 9 and 10 (the poorest deciles) ballooned between the 1996 census and the 2001 census, moving from 23% to 34% of Waitakere's population. Waitakere now has a higher proportion of people in those deciles than Manukau. At the same time, figures for crowding in Waitakere houses have fallen only slightly, from 4.8% in 1996 to 4.3% in 2001 (Waitakere Wellbeing Collaboration Project 2004).

Processes of ghettoisation create negative 'neighbourhood effects' on people's wellbeing and safety (Joshi et al., 2000; Sloggett & Joshi, 1994). They also create greater stigma on families living in those areas, exacerbate housing price differentials, and reinforce a spiral of marginalisation. In Auckland, poorer families relegated to the city's periphery face the well known problem of 'transport poverty': poor public transport and a long way to go to get to work means having to own at least one vehicle and run it a great deal. Ongoing costs are high, and cheaper cars more likely to end up unserviceable. Car repairs can lead to borrowing from expensive loan sharks, exacerbating debt and stresses (Marmot & Wilkinson, 1999). It is also true that because local governments and service agencies seldom have their own income responsively linked to changes in their area's poverty demographic, there are often long lags before poorer areas get the services they need. Mental health funding, for example, is tied to overall population, but not to relative deprivation. Poorer communities must deal with greater stresses and strains than richer ones (Joshi et al., 2000; Kawachi & Berkman, 2003; Marmot & Wilkinson, 1999) and they must also do this with many fewer mental health resources than they need.

In New Zealand, these effects have been reinforced by school zoning arrangements, both when the National government abolished school zones (and forced schools to compete) and, ironically, when the old school zones system was reintroduced by the current government (although this has made some positive difference). When the zones were abolished, many schools in the poorest areas found their rolls decimated, with the more able students able to get into other schools. But, contrary to 'market expectations', not everyone could move to 'better schools': these schools quickly re-established their zones, shutting out many of the poorest. When zones were reintroduced, however, even those more able students who had shifted lost this opportunity. In any case, high levels of inequality lead to high stigmatisation of schools in poorer areas, and to more incentives for more able students to 'fly away'. From all this we can see that zoning matters, but when underpinned by entrenched and rising inequality, it becomes as much a mechanism of exclusion as inclusion.

Poverty in place, like poverty among children, needs specific responses, starting with attention to income adequacy and inequality.

The government's response to the ghettoisation of poverty has tended to place too much rhetorical reliance on 'local partnerships' (see for example Ministry of Social Development 2001). Some relatively successful partnerships involve health housing, health service delivery (Primary Health Organisations), and Strengthening Families programmes. But even where partnerships are relatively successful in coordinating service delivery, there is a growing body of experience to suggest that local responses are not enough, and that in fact they create an 'illusion of inclusion' (eg that people are being lifted from poverty because of inclusion in service delivery), even as the more powerful sorting mechanisms like real estate markets and school zones marginalise more people (Craig, 2003; Craig & Courtney, 2004 forthcoming). Poverty in place, like poverty among children, needs specific responses, starting with attention to income adequacy and inequality, rather than with generally defined 'inclusion' and relying on partnerships with local agencies.

The toll of child poverty in New Zealand

> *We are seeing stressed and recurrently sick children – they have no space to do their homework as they live in crowded houses with no personal area for them; they're up very late and are chronically tired as they are all sharing rooms; the spread of infectious diseases is high as many occupy the same sleeping area, and poor bedding and no money for their own sheets mean an endless spread of skin bugs.*
>
> Dr Nikki Turner, Waipareira Health Centre, West Auckland

A poor child is more likely to be malnourished, sick and changing schools frequently as well as living in noisy, often damp and cold, stressful conditions.

The kinds of deprivation described above mean a child is more likely to be malnourished, sick and changing schools frequently, as well as living in noisy, damp, cold and stressful conditions. He or she is less likely to be taken to the doctor with mild illness, (more likely to arrive when very, very sick, and more likely to need hospitalisation), less likely to leave high school with a qualification, to own clothes for cold weather, to play sport, to go on holiday, to have birthday presents or be able to give presents to other children, let alone pursue hobbies like music lessons.

Budgeting and 'life skills' classes are no help for parents struggling along on too little income. It is easy for the more affluent to dismiss the plight of poor families by assuming they are poor budgeters, or lack other social skills, but when you don't have enough, no amount of stretching is going to make ends meet. Children in families trapped in poverty can often have nowhere to turn to. Supportive extended families can supply resources to poor families, but many poor families have no-one to call on.

Statistics collected by agencies who deal with the immediate physical needs of low income families record that foodbank clients spend 30% or more of their low income on housing (New Zealand Council of Christian Social Services, 2004). Thus, children often end up in radically over-priced, makeshift accommodation, and money for their food, warm clothing, heating and visits to the doctor when the inevitable illnesses strike is scarce after housing costs.

One result is that our poor children have very high rates of preventable diseases, as discussed in 'Our Children' (Child Poverty Action Group, 2003). These diseases, some of which are third world, include ear infections, hearing loss, gastroenteritis, dental disease, cellulitis (skin infection); infectious diseases such as meningococcal disease, whooping cough, rheumatic fever, bronchiolitis and pneumonia.

A large study of child health indicators undertaken in the Auckland and Waikato regions, looking at trends in health from 1995-1999, highlighted the top 10 health issues for children (Graham, Leversha, & Vogel, 2001):

- deaths of infants, which remain high compared with similar countries - our infant mortality ranking in the world has fallen over the last 3 decades
- deaths of Maori children, 90% of which are potentially avoidable
- deaths of adolescents and young adults due to very high death rates from motor vehicle crashes and suicide
- avoidable hospital admissions, which are high and rising, including ear infections, gastroenteritis, dental disease, cellulitis
- infectious diseases rates such as meningococcal disease, the reemergence of whooping cough, TB and rheumatic fever
- hospital admissions for asthma
- admissions for lower respiratory tract diseases
- high rates of births to teenage mothers, by international standards
- the deterioration of our dental health, which used to be the best in the world - children and young people now have high rates of missing and filled teeth
- high rates of hearing loss among children

As Professor Innes Asher said in her Auckland University 2004 Winter Lecture:

> *The danger is that we are accustomed to these appalling rates of death, injury, sickness and disability so they become the 'normal' child health picture in New Zealand*
>
> (Asher, 2004) .

Every year in Auckland, 5 in every 1000 children are hospitalised with pneumonia. Our rates are five times higher than comparable countries (Grant, 2000). Professor Asher notes an escalation in rates of lower respiratory tract infections such as pneumonia and bronchiolitis in South Auckland with similar increases in poorer areas in other parts of the country.

In New Zealand there are also large numbers of children with severe bronchiectasis; a severe, chronic and disabling condition. Bronchiectasis most commonly occurs after repeated or severe pneumonia, or pneumonia which is under-treated, and is recognised internationally as a disease of poor living conditions and poverty. Professor Asher points out that "the number of children affected is increasing rapidly. We have very severe cases compared with other countries". (Asher, 2004)

All this takes a huge, permanent toll especially during the critical first three years of life, when the young brain is developing. Socio-economic disadvantage in childhood has long-lasting negative effects on adult health – poor children will suffer more from cardiovascular disease, dental disease and drug abuse as adults (Fancourt, 2000; Poulton, 2002).

It is easy for these grim consequences of poverty on individual human beings to be buried by the welter of faceless statistics, and yet it is important that they are known and not forgotten by policy makers and the public in general. Poverty is not only a personal tragedy for the child, it is also a tragedy for society in general, as the child has been denied the ability to develop to his or her full potential as a working citizen.

Poverty is a tragedy for the child concerned and for society in general, as the child has been denied the ability to develop to his or her full potential as a contributing citizen.

3. Responding to child poverty: the need for ***child- focussed*** family assistance

In the early hours of the morning our young people are stacking supermarket shelves, pumping gas and cooking burgers to help support their families and finance their "free education". One secondary school history teacher despaired for one of his most talented students who frequently fell asleep in class. Then one morning at 2am, the teacher happened to stop for petrol at a station near the airport on the way to collecting a family member from an international flight. There was his student, working the grave-yard shift to support his family's income.

Therese Ireland, Auckland educator

The policies of New Zealand's welfare state have long focussed on assisting families with children. In this chapter these policies, their rationales, and shifts in them over time, are detailed. What becomes clear, however, is that family assistance has never just been child-focussed. Rather, child-oriented family assistance in New Zealand has continually been intertwined with employment related policies. Often, as in the new In Work Payment, employment-related policies have dominated, marginalising child-focussed policy. This, it is argued, has had powerful negative effects on the most marginal children.

The New Zealand welfare state's focus (and reliance) on *employment* has been much remarked on, to the point where New Zealand has been described (with Australia) as an explicitly 'breadwinner's (or wage earner's) welfare state' (Castles, 1994). Here, the primary focus (and, arguably, the central policy meaning of 'social inclusion') has been having people in work, whether by supporting full employment and a family-sufficient 'social wage', or, in recent years, by case management, extensive re-training and the pushing of the unemployed back into the workforce via disciplinary means (Porter & Craig, 2004). For those out of work, New Zealand has, like other 'liberal welfare regimes' (the UK, US, Canada, Australia), offered only residual safety-net benefits, instead of the income security offered in 'social democratic' Scandinavian countries for example (Esping-Andersen, 1990).

Arguably, in times of near full employment, when jobs are relatively easy to move in and out of, this reliance on work hasn't mattered as much. But in the last fifteen years, levels of unemployment in New Zealand and many other countries have hit (and sometimes stayed at) structural highs. At the same time, in 1991 the New Zealand government actually cut unemployment payments, meaning that many marginal families suffered a double blow. In the 1990s, New Zealand's welfare state lurched even further into the 'liberal welfare' regime camp, and much further away from the 'social democratic' one, as shown by the abolition of the Family Benefit, failure to inflation-adjust Family Support and the creation of a very narrowly targeted set of benefits and family assistance measures indeed (arguably the most narrowly targeted in the whole OECD).

Sanctions against being out of work were also ramped up, alongside incentives and a range of supports for those in work. As we'll see below, welfare policy has become more work-focussed than ever, and as a consequence, issues of child poverty have been pushed aside or bound more and more closely with being in work. This tendency is exactly what Working for Families extends further.

This privileging of work over individuals' financial security, it is argued here, is especially dangerous for poor children - children in families who are out of work, or whose families depend on benefit sources of income. Social inclusion in New Zealand must mean more than belonging to a family which is “in work”.

The close tie-up of work and welfare in New Zealand means that one of the key policy tensions has been between providing adequacy for those on benefits and making sure that families have incentives to move off benefits into paid work. In recent years, the government’s concern has been to make the choice for poor families clearer by creating a gap between benefit rates and income from work, via tax credits only payable to working families and a reluctance to improve core benefits.

One problem is that bottom end wages are so low, benefits don’t have to get very high before they exceed them… minimum wage levels must be pushed up.

One of the problems from a policy point of view is that, because minimum and bottom end wages in New Zealand are so low, benefits don’t have to get very high before they exceed wages. This creates a disincentive to take paid work, and much resentment among working poor voters. But to do anything for less well-off New Zealanders means running into the problem of creating disincentives at some point. As a recent article in North and South has shown (see page 52 below), because of the way the current Working for Families package is structured, there will not be much difference in net income between a family earning $38,000 and a family earning $60,000 (Larson 2004).

Low wages limit the policy choices governments can make, and as we recommend in conclusion, minimum wage levels must be raised. But the lesson we can learn from cases like the North and South article is that the disincentive problem doesn’t go away just because you target lower income working families: you just move it up the economic scale.

When the next recession comes, many more poor families will lose the In Work Payment, dropping down onto very low level benefits.

At some point, a hard decision is needed about how much to trade-off the benefits of creating incentives to be in work against the benefits of reducing child and family poverty. CPAG thinks there are very good reasons to weight this decision in terms of the interests of poor children. But some external agencies, including most recently the OECD, have been urging New Zealand to create an even bigger gap between working and benefit families (Adema, 2004). The government is rightly resisting this, pointing to the impact it would have on child poverty.

However in this report, we argue the problem in New Zealand is that Working for Families has allowed the policy issues of child poverty and being in work to become too closely intertwined, to the point of confusion and the detriment of the most marginalised. The confusions are big and small: on the small side, as we’ll see, the In Work Payment is supposedly a reward for getting a job, but it is paid to the child’s caregiver, not the person who got the job. On the big side, the bias towards rewarding work means that those poor children whose parents for very good reasons are out of work are actually in a double jeopardy. They lose from not being in work, and are penalised through lowered rates of family assistance. Again, in boom times, this might not seem so important (though everyday experiences of such families show it is). But when the next recession comes, many many more poor families will be in exactly that position: losing jobs, losing the In Work Payment and dropping down onto very low level benefit levels.

International trends are encouraging: in many countries, investing in children has become a major policy plank.

In short, tying up children’s welfare too closely with work welfare has a number of fishhooks. It’s time, we think, to make a clearer distinction between work-focussed policy, and child-focussed policy. Our argument is clear: work matters, but creating incentives to be in work is not a sufficient means for addressing child poverty. Child poverty needs separate, poverty-focussed measures, some of which could or should involve universal family payments.

Here, international trends again seem encouraging, if a bit contradictory. In fact, in many countries “investing in children” has become a major policy plank, to the point where Jenson and others can talk about a ‘child centred strategy of welfare state reform' (Jenson and St Martin 2002). Interestingly, however, even this orientation is largely justified with reference to the labour market: it's about investing in our future workers. As below, we think this is an acceptable argument, and New Zealand needs to take more notice of it, especially as regard to poor families. In New Zealand, as in the United States, short-term labour market inclusion concerns (get a job now) continue to dominate. Getting 'mums into work', whether through Wisconsin-style compulsory workforce inclusion for sole parents, or through enhanced childcare support and in-work payments, seems to have taken precedence over the welfare of the child. All this is discussed in greater detail in the next chapter, where we focus on the history of child assistance, and its progressive mixing with work policy.

Meantime, we want to canvass some explicit reasons why child focussed policy is warranted.

Rationales for child-focussed family assistance

There are a number of strong rationales for treating the well-being of children as something valuable in its own right, and for not subordinating it to policy around work, or even the wider family.

Rights based rationales

The first rests simply in the intrinsic value of each child: as the 1990 UN Convention on the Rights of the Child stipulates, regardless of a family's situation or status, each child deserves basic security and care. The responsibility for providing this, the United Nations makes clear, rests with everyone, including the state. To quote articles 2 and 3 of the convention

Each child deserves basic security and care - the responsibility for providing this, the UN makes clear, rests with everyone, including the state.

- States Parties shall respect and ensure the rights set forth in the present Convention to each child within their jurisdiction without discrimination of any kind, irrespective of the child's or his or her parent's or legal guardian's race, colour, sex, language, religion, political or other opinion, national, ethnic or social origin, property, disability, birth or other status.
- States Parties shall take all appropriate measures to ensure that the child is protected against all forms of discrimination or punishment on the basis of the status, activities, expressed opinions, or beliefs of the child's parents, legal guardians, or family members.
- States Parties undertake to ensure the child such protection and care as is necessary for his or her well-being, taking into account the rights and duties of his or her parents, legal guardians, or other individuals legally responsible for him or her, and, to this end, shall take all appropriate legislative and administrative measures

As discussed below, there are grounds for considering some aspects of the Working for Families package discriminatory in these terms. Children are getting caught up in policy initiatives designed to affect and motivate or constrain their parents, based on a set of labour market priorities.

Here, rights are a matter of entitlement. But there are also other important rationales for governments to pay families extra when there are children. Economic theory suggests that there are two equity justifications for a child tax credit or a child benefit payment, both of which essentially decrease the total tax paid by the parent(s). The third justification, investing in children, is also receiving strong support form a number of other disciplines, including public health.

Equity rationales

The first comes from the concept of *horizontal equity*, or treating equals equally. A couple with children is not in the same position to pay tax as a childless couple on the same gross income, because the income, when there are children, has to go further.

Thus horizontal equity requires that, at each income level, the larger the family, the less tax should be paid. Income equivalence scales suggest that there are some economies of scale in larger households, and these in turn may be related to the ages of the children. The frequently-used revised Jensen scale[2] suggests that a couple with four children needs 69% more income to have the same standard of living as they would without children (Statistics New Zealand, 1999). Families' reduced ability to pay should be reflected by a lower tax burden at all income levels, based on the numbers (and also perhaps the ages) of children - either through a tax credit or a cash payment such as a child benefit.

A society's overall health and well-being will be more significantly increased by investing at the bottom end rather than at the top.

In contrast to family tax credits, a universal child benefit is more closely associated with the child, not the income position of the parents. It provides for some degree of horizontal equity for all by treating all children the same at all income levels. The child benefit paid to the caregiver cannot be clawed back as its level is not affected by a rise in the parents' income(s), and also does not change if parents separate, re-partner or divorce. In the United Kingdom a substantial fully-universal child benefit applies, and in Australia a weekly payment of approximately $21 per child is made to all but those families on the very highest incomes (see Chapter 7 and St John, 2003). The loss of the New Zealand universal Family Benefit, in 1991, means that there is now no mechanism to ensure horizontal equity for all families.

The second rationale comes from the concept of *vertical equity*, which looks to improve the distribution of disposable income across all levels of income. In particular, the aim of programmes based on this principle is to prevent poverty among families by the payment of a suitable income supplement targeted to those on low incomes. Family Support is an example of such a scheme. There are a number of very good reasons why vertical equity matters, and not just for the poor. Overall, for example, the evidence is that a society's overall health and well-being will be more significantly increased by investing at the bottom end rather than at the top: poor people get better returns on, say, a $30 increase in their basic income (they use it to buy essentials) than a rich family (who might use it on a trip to a café). Highly unequal societies on the other hand suffer a whole range of ill-being related problems including higher violence and crime rates, more segregation and social division (Wilkinson, 1996). The powerful rationale that comes from insights into the effects of child poverty, in particular on long term and social health outcomes, is discussed further below.

As our welfare state has evolved, it has spent relatively less and less on the youngest. At the point where there's most to be gained, our system is the least generous.

Vertical equity also matters across the life cycle. Put simply, all of society's wealth and/or poverty shouldn't be clustered among the very young or the very old. In New Zealand, as we've seen, poverty has been largely 'de-greyed', while child poverty has risen alarmingly. As our welfare state has evolved, it has spent relatively less and less on the youngest group. So at the point where there's most to be gained, our system is actually the least generous.

[2] This scale has been criticized for assuming large economies of scale for extra children (Easton & Ballantyne, 2002).

Applying vertical equity to this problem would actually mean children and young families starting out would receive more assistance than old people: more assistance with housing, with the costs of starting a family, with paid parental leave and childcare, etc. Clearly this is starting to happen internationally, and to an extent in New Zealand (though not as part of Working for Families).

But while our welfare system has maintained income levels in line with rises in average wages for old people (through New Zealand Superannuation) it has let them fall for the young (through not indexing family support even to inflation let alone wages). The trouble with fixing this issue is possibly that, quite simply, children don't vote, whereas the grey vote has become larger, determined, and in short essential to getting elected. So as we might expect, a bias in policy can be seen away from the voiceless and very young, and in favour of the older and more politically active.

The trouble with fixing child poverty is possibly, quite simply, that children don't vote.

Public health and investing in children rationales

A third reason might be proposed: addressing child poverty is an investment in the child's, and the economy's, future. The value of this kind of investment is only now coming to be understood adequately. Health researchers have produced mountains of evidence showing that the early years, even the months before birth, are extraordinarily important for long term health and well-being. Children in poorer families are more likely to be born underweight, and this has lifelong health implications. They are also more likely to suffer almost every kind of illness, suffer injury and accident, have poorer educational experiences and outcomes, and be exposed to more of the risk factors for poor health. There is strong evidence that the level of resourcing - and especially income - which mothers and families have during early childhood years has powerful consequences for their children (see Marmot and Wilkinson 1999, pp7-8).

As Marmot and Wilkinson note, and as an enormous volume of medical and social research is continuing to demonstrate,

> *Poor social and economic circumstances present the greatest threat to a child's growth, and launch the child on a low social and economic trajectory*.

Poverty affects nutrition as well as physical and neuronal development, and reinforces exposure to a number of significant risk factors, including violence and smoking. In this way,

> *Parental poverty starts a chain of social risk. It begins in childhood with reduced readiness for and acceptance of school, goes on to poor behaviour and attainment at school, and leads to a raised risk of unemployment, perceived social marginality and low status, low control jobs in adult life. This pattern of poor education and employment damages health and, ultimately, cognitive functioning in old age.*

Ensuring children are healthy is not just a matter of saving on medical bills later on: it's about having children who are ready to do well at school and, later on, in the workforce.

Fortunately, there is widespread interest and understanding among policy makers internationally and in New Zealand round these issues. Which makes it all the more surprising that current policy could so clearly set aside the needs (and negatively impact the futures) of such a large number of New Zealand children. [3]

There is widespread interest and understanding among policy makers in New Zealand about child poverty, so it is surprising that current policy can be found to be so wanting.

Dealing with objections 1: fiscal implications

One of the criticisms that can be levied at groups such as the Child Poverty Action Group who would like to see a larger, more generous package that addresses the worst child poverty directly is that of fiscal irresponsibility. However, unlike the money more wealthy people are likely to spend after any tax cuts, additional spending by poor families is unlikely to contribute significantly to inflationary pressures. The extra money will not bid up property prices, but go to meeting the rent, food bills, school fees, repayment of debt, and hopefully reduce the pressures on the food banks. Longer term, it is likely that better living standards for poor children will be reflected in lower admissions to the hospitals for third world diseases and lower social costs from chronic ill health and poor productivity.

Unlike the money more wealthy people are likely to spend after any tax cuts, additional spending by poor families is unlikely to contribute significantly to inflation.

Dealing with objections 2: other economic distortions

Economic theory also requires that measures to achieve equity distort the labour market as little as possible. Concern is often expressed in relation to this that welfare benefits are too high relative to wages, thereby providing a disincentive for low-paid people to work. There seems to be little solid evidence for this claim – in fact unemployment benefits were relatively more generous in the days when New Zealand enjoyed unemployment rates of 1 – 2%.

A second aspect of economic efficiency relates to what happens when work effort increases. If the returns to extra work are reduced because some of the state assistance is clawed back, there may be a significant disincentive to increasing hours of work.

It is often claimed that state assistance distorts savings. The argument goes that people will ‘know the value of money’ and thus save more if they are obliged to earn it for themselves. Treasury however found that the bottom 50% of New Zealand households have outgoings that exceeded income, and 85% of national private saving is done by the top-earning 30% of households (New Zealand Treasury, 2001). Treasury viewed saving as unrealistic, on their figures, for low to middle income households. Clearly, in situations where saving is not possible, there can be no distortion of savings patterns due to the provision of state assistance.

Treasury viewed saving as unrealistic for low to middle income households as it found that the bottom 50% of New Zealand households have outgoings that exceeded income.

Efficiency also requires that a tax/benefit system should be as easy and cheap to administer as possible. An administratively efficient system should also make it easy for recipients to understand what they are entitled to, and to get it. In this respect, universal systems of assistance, like old-age pensions, are well ahead of family assistance in New Zealand. The criteria are simple – attaining a certain age, or being the caregiver of a dependent child – and there are no issues of income limits and clawbacks.

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[3] see for example: Davies, Wood & Stephens (2002); Jacobsen et al. (2002); Keating & Hertzman (1999); Mayer (2002), Shonkoff and Phillips (2000), Tobias and Howden-Chapman (2000).

Targeted systems are more difficult to administer, and are often confusing for recipients, leading to low take-up rates. For family assistance, the issue of administration has been particularly acute, especially for the complex Child Tax Credit.

Clearly, if assistance is to be targeted according to income, then it is important to define what "income" is, and what counts as "income" for the purposes of assistance. In addition, many targeted systems add a further layer of complexity, requiring income estimations. All of this can be difficult for seasonal workers, the self-employed, and for unskilled and semi-skilled workers whose income may fluctuate through the financial year or from one year to the next. The numbers of workers in these kinds of jobs, too, have risen steeply in last few decades.

A significant part of the development of child poverty in New Zealand is due to government neglect of family assistance.

In New Zealand, family assistance entitlements are decided variously on the basis of current annual income (family support); current weekly income (child care subsidies); or the next twelve months' expected income (Community Services Card). In addition, a cash assets test applies for those receiving an Accommodation Supplement. Those who underestimate their income may end up owing money to the Inland Revenue Department at the end of the financial year.

This report argues that a significant part of the development of child poverty in New Zealand is due to government neglect of family assistance. It seems that none of the rationales for family assistance have been persuasive to recent governments. New Zealand's targeted family assistance has not achieved vertical equity as it does not ensure that poverty is prevented. Nor does it achieve horizontal equity by recognising the costs of rearing children at all income levels. As well, the Child Tax Credit blatantly discriminates against certain children on the basis of their parents' income. Furthermore it is not efficient: as the Ministry of Social Development has recognised, it is "complex, confusing and difficult to administer [and] needs to be simplified."

4. Family assistance in New Zealand

This section reviews the ways the system has worked in the past for families in New Zealand. It is important here to note these are not just the big policy changes, but also the incremental ones such as the consistent failure to adjust universal benefits and family assistance tax breaks for inflation, as well as a growing dominance of workforce-related issues over basic family income security and child poverty concerns.

Background 1926 - 1996

The first government family assistance programme in New Zealand was introduced in 1926. This provided a small allowance to large families on a low income. Over the next two decades, these allowances were extended to include smaller families (Nolan, 2002, p2).

The Social Security Act of 1938 replaced the Family Allowances with the Family Benefit, but kept the income test. By 1941 however, all children under 16 qualified, and in 1946 the Family Benefit became fully universal. It was paid at the rate of 10 shillings per week per child. Beaglehole (1993) noted that

> *A woman with two children received the equivalent of at least a full day's pay for a labourer as benefits, unlike wages, were not taxed. Most women received more, as the average number of children born to mothers in the 1950s was 3.4.*

In 1946 the Family Benefit became fully universal…a woman with two children received the equivalent of at least a full day's pay for a labourer.

There was wide support amongst the population for the principle of universality. The MP for Hamilton, Mrs West, stated in 1946 that "all agreed the old, the sick, and the young must be looked after. The universal child allowance was of inestimable value to thousands of parents…" (Hansard, Vol 275) The family benefit was popular with the electorate, and in trying to argue against it the parliamentary opposition was reduced to querying the mode of its delivery. The take-up rate for the family benefit was high and, under legislation brought in later, it could be capitalised to assist caregivers in saving for the deposit on a house.

> *In 1970, our family moved to Auckland after 12 years of living in country schoolhouses, as my husband was a school teacher. In those days, school teachers were very poorly paid and with five young children to raise, money was extremely tight. We wanted to purchase our own home in Auckland if we could, as we felt renting was dead money. We approached the then State Advances Corporation, and were given a 25-year loan but even with another loan from a friend, we found we were still some way short of the amount we needed to buy a home. Fortunately, we were able to capitalise on the benefit from two of the children and that meant we were able to buy the property we wanted. Later on, we capitalised again on another of the children's benefits in order to buy uniforms for high school, as our three eldest children started high school within a year of each other.*
> *Without the Family Benefit I truly do not think we would have been able to buy a house and would probably have ended up renting for a long time, until we could build up equity. We would have lost a lot while waiting for that to happen.*
>
> Helen Turner

However in the post-war period, the Family Benefit was not automatically adjusted for inflation and the small increases granted periodically were insufficient to maintain its purchasing power. Relative to average wages, its value per child declined from around 8% at the end of the war to about 3% by 1983. It remained unaltered at its 1979 level of $6 per week per child until it was finally abolished in 1991 when it represented less than 1% of average wages, or just one-eighth of its former purchasing power. Slow erosion had allowed it to slip gradually beneath the political radar. However, as the United Kingdom's current universal family support benefit (discussed in chapter 7) shows, this was not a policy dinosaur needing replacement by more sharply targeted assistance. In fact, New Zealand's lack of such a benefit today constrains what we can do in addressing child poverty.

Other complex family rebates were introduced in the 1970s and early 1980s which were designed to help low income families (Easton, 1981). Family Support, introduced on 1 October 1986, replaced these measures by a new, single refundable tax credit based on joint parental income and the number of children (Nolan, 2002; St John, 1994).

Along with general tax rate reductions, Family Support was also intended to cushion the effects of the 1986 Goods and Services Tax on poor families. But once the regressive tax was accepted at 10%, compensation for it soon faded away as a policy motivation. Its effect on poor people, however, did not. When the rate was lifted to 12.5% in 1989 there was no direct compensation, and later in 1991, the initial compensation to beneficiaries was undone by severe cuts to basic benefits. In contrast, in Australia, GST does not apply to basic foodstuffs, a policy measure directly designed to reduce the impact of GST on the poorest families.

Table 4: Summary of the changed approaches to family assistance

Benefit	Targeted (some children)/ Universal (all children)	Work focussed?	Child poverty focussed?
1926: Small allowances targeted to families on low income	Targeted to poor	No	Yes
1938-46: Family Benefit	Targeted to poor	No	Yes
1946-1985: Family benefit Assorted rebates	Universal Targeted	No No	Yes In part
1986-1990: Family Benefit Family Support	Universal Targeted	No No	Slipping in importance Yes
1991-1996 Family Support	Targeted	No	Yes but slipping
1996-2004 Family Support Child Tax Credit	Targeted Targeted	No Yes	Yes slipping further No

One of the important underlying rationales for the introduction of Family Support was that all children would be treated the same, regardless of whether the source of parental income was low wages or a benefit. Family Support was initially paid at $36 for the first child and $16 for other children and abated (that is, reduced as extra income comes in) for gross joint family income above $14,000 by 18 cents in the dollar. From 1988, Family Support abated by 18 cents in the dollar from joint parental income of $17,500 up to $27,000, and by 30 cents in the dollar above that. From 1990, rather than being equally divided, Family Support was all paid to the primary caregiver. This could be paid weekly, on the basis of estimated joint income, or as an end of year adjustment lump sum once all annual income was known.

Family Support is administered by the Department of Inland Revenue, although the payments are made by WINZ for those on benefits. The amount a family is entitled to can be a complex matter to determine, in contrast to a straightforward universal child benefit. If for example, at the end of the financial year, a family's actual joint income level turns out to be higher than estimated, they may have to repay some of their Family Support. For some families, this is clearly a disincentive to receive the payment on a weekly basis rather than as an end of year tax adjustment.

Other complexities surround the treatment of separated families. The income calculation for Family Support includes any privately arranged child maintenance received by the caregiver along with Child Support payments received via IRD. Any similar contributions made by the caregiver for children in other families can be deducted. The income of a parent who does not live with the caregiver and child(ren) is not taken into consideration when Family Support is calculated. (This is not to be confused with the calculation of Child Support, which is based on the income of the paying parent).

In 1990, the Labour government initiated a wide-ranging review of the social security system. The Budget of that year proposed some comprehensive changes for families and for the benefit system, to be introduced following the 1990 election. As National was elected into power that year, the changes were abandoned. But this new approach would have incorporated the important principle that the standard unit for a range of benefits should be the individual. Thus the benefit of a couple would be twice the benefit of an individual, who would have an add-on if he or she lived alone.

Also announced but never implemented because of the election result, was a new Family Benefit, which would have been an amalgam of the old universal Family Benefit and the Family Support tax credit. It was designed to abate in much the same way as Family Support had done, but only down to the value of the Family Benefit, which retained a universal tier. Critically, the new Family Benefit was linked to a given fraction of the standard Universal Benefit level which, in turn, was to be linked to the level of wages. Whether these reforms would have improved the lot of poor children is not assessed here. Nevertheless it is interesting to note that the idea of a generic benefit for adults, with add-ons where there are children, appears to be the direction the current government is moving in, with the proposed adjustments to the core benefit (see chapter 5).

As mentioned, the election of the National government in November 1990 saw the concept of the Universal Benefit and the new Family Benefit abandoned. In a controversial move, in December 1990 it was announced that social security benefits would be cut from April 1991. Families with children on benefits such as the Domestic Purposes Benefit and the Unemployment Benefit faced a decrease of up to $27 a week representing a severe decline in disposable income. The impact of this was even worse than the dollar value of the cuts suggests, as the benefits had been due for an adjustment for the cost of living, and stand down periods were increased.

The ad hoc changes made to Family Support during the 1990s are detailed in Box 1. In 1991, the Family Benefit was abandoned as a universal payment. In effect it was amalgamated with Family Support and the entire amount made subject to abatement. The threshold and abatement rates for Family Support were not adjusted and as a result, abatement at 30 cents in the dollar extended much further up the income range, especially for large families. In 1993-4 some adjustments for subsequent children were announced with more significant changes introduced in 1996, as set out in table 4 and discussed below.

Box 1: From Cuts to Crumbs: Family Assistance in the 90s

Family Support was increased from 1 April 1991 by the amount of the Family Benefit, abandoning the universal principle of that Benefit. For additional younger children (under 13 years), Family Support increased from $22 per week to $27 over the period 1991-94. For older children, aged 13 years and over, the rate became $35 (1993).
From July 1996, Family Support was increased by $2.50 per child, rising to $5 in July 1998, with larger increases for dependent children aged over 16.

Independent Family Tax Credit (now the Child Tax Credit) of $15 per child per week was introduced 1996-1998; only available for those families who did not receive any government benefits.

Abatement of Family Support. From 1994, an increase was made to the income thresholds above which Family Support payments are abated. For gross joint family income above $20,000 (up from $17,500), Family Support reduced by 18 cents in the dollar up to $27,000, and by 30 cents in the dollar for incomes above $27,000. In 2003, the two thresholds were increased by a miniscule amount, to $20,356 and $27,481 respectively.

New principles for family assistance: 1996

From 1986 to 1996, all children from low income families were treated the same. After 1996, however, the philosophy changed to allow discrimination against children of families receiving benefit income.

From 1986 to 1996, all children from low income families were treated the same, regardless of whether their parents were in work or not. After 1996 however, the philosophy changed to allow discrimination against children of families receiving benefit income. The 1996 Budget introduced this new concept for family assistance through a raft of measures under the “Family Plus” banner. The most significant of these measures to treat working families differently from benefit families was misleadingly called the Child Tax Credit (CTC), which effectively denied benefit families a significant chunk of Family Support.

The CTC was initially known as the Independent Family Tax Credit (IFTC), a name that revealed the ideological underpinnings of the policy: this assistance is restricted to families ‘independent’ of the state. In practice, this means that to be eligible, neither parent can be receiving an income-tested benefit, a veteran’s pension, New Zealand Superannuation, a student allowance, or ACC for more than 3 months, with eligibility determined for the days of the year the parents were free of the benefit system. The CTC therefore discriminates against hundreds of thousands of children because of the source of their parents’ income. The criteria of eligibility for other aspects of Family Plus, which include a Parental Tax Credit and a Family Tax Credit, discussed briefly below, are the same as for the CTC. It will be clear that the new ‘Working for Families’ In Work Payment continues and builds on this basic discrimination.

The Child Tax Credit is similar in all respects to Family Support except in who qualifies for it. One valid way to interpret the 1996 changes, outlined in table 5, is that the “in work” families who qualified for the full additional $20 per child were effectively given a catch-up for the inflation that had eroded their family assistance since the late 1980s. When fully implemented in 1998, the real inflation-adjusted maximum value of Family Support (including the CTC) for families of different sizes had been approximately restored, as shown later in figures 6 and 7 – for those families independent of the state.

Table 5: Weekly maximum rates of Family Support and CTC

	Prior to July 1996	From 1 July 1998 Family Support	From July 1998 Family Support and CTC (only for working families)
For the eldest child:			
Aged 0 to 15 years*	$42	$47	$62
Aged 16 years or over*	$42	$60	$75
For each additional child:			
Aged 0 to 12 years	$27	$32	$47
*Aged 13 to 15 years**	$35	$40	$55
Aged 16 years and over*	$35	$60	$75

Source: Budget 1996. *Families with older children are not analysed here.

Those families who did not qualify for the CTC, representing approximately 300,000 children, received only the $5 increase in their Family Support, and thus were denied a meaningful inflation catch-up as illustrated later. Alarmingly and significantly, the principle of treating them differently had been established: now family payments were to be partially dependent on the source of low parental income with benefit-receiving families disadvantaged. To complicate matters, entitlement to the CTC is only for the *days* of the year that the parents are *both* ‘independent’ from the state. Families who are in and out of the benefit system are unlikely to receive full access to their entitlements. By 2001, this is an expressed concern of the Ministry of Social Development:

> *Another worrying trend is that fewer families are claiming family assistance than we would expect. The system of tax-based family assistance does not link well with the benefit system. Without help of this type, it is difficult for people to move in and out of work without falling into the poverty trap of benefit or tax debt, sometimes both.*
>
> (Ministry of Social Development, 2001)

“…tax-based family assistance does not link well with the benefit system. Without help of this type, it is difficult for people to move in and out of work without falling into the poverty trap of benefit or tax debt, sometimes both.”

- Min. of Social Development

The purpose of the Child Tax Credit

The key point here is that the CTC is a labour market tool, based on the idea that it is important for people in work to be better off than those on benefits. It applies selectively, however, as only those with children are entitled to it. This is odd, as one might expect that childless young people may also be considered to need an incentive to get off benefits and remain in work.

Because wages earned by families are often very low, it is possible to give examples of how some parents can be worse off in work than on a benefit. Thus the CTC was introduced to ‘encourage work effort’. But numerous criticisms of its usefulness as a labour market incentive can be mounted (Child Poverty Action Group, 2000, 2002). To begin with, the CTC rewards independence from the state, not extra hours worked. It is complex for parents to understand and difficult to administer. The criteria are crude and discriminatory, for example a child may be denied $15 per week because one parent is old or disabled, or unfortunate enough to need ACC for more than 3 months or is a student on a student allowance. When the economy falters, rather than a carrot to encourage full-time work, the CTC may act more as a punishment for those who lose their jobs.

When the economy falters, rather than a carrot to encourage full-time work, the CTC may act more as a punishment for those who lose their jobs.

While employment policy issues have an impact on child poverty, our argument here is that it is crucial that child poverty issues are not replaced by, or subordinated to,

The CTC is a labour market tool but only for those with children. Yet one might expect that childless young people may also be considered to need an incentive to get off benefits and remain in work.

employment issues. If they are, many children will be – and indeed are - seriously disadvantaged.

In 1996, while in opposition, the Labour party publicised its intention, if elected, to amalgamate the CTC with Family Support, so that all children would be treated the same again. It is remarkable, therefore, that the CTC has been so ignored by the Labour-led Administration. In 2002, the Child Poverty Action Group asked the Human Rights Commission to investigate the legality of the CTC given its highly discriminatory character (Child Poverty Action Group, 2002). The Human Rights Commission attempted to mediate the complaint but could not do so because it was informed by the Crown Law Office (acting for Inland Revenue, which administers the CTC) that the Office considered the CTC was not discriminatory. The Director of Human Rights Proceedings is now preparing to take the CPAG case to the Human Rights Review Tribunal.

To summarise: the use of child-related payments to provide a work incentive is controversial. While it may be appropriate to reimburse some or all of child-related work expenses such as childcare, this can be done with subsidies specifically designed for that purpose. The use of per-child tax credits to provide a work incentive excludes the childless, who may be more in need of an incentive than parents with young children.

While in opposition, the Labour party publicised its intention, if elected, to amalgamate the CTC with Family Support, so all children would be treated the same again. It has not done so.

Rather than using the crude tool of a 'per child' lump-sum payment, work incentives can be designed to reward extra work with extra disposable income. This might be achieved by a tax rate reduction or a reduction in the abatement of family assistance – or by increasing wage levels directly, through means such as raising the minimum wage. This was the approach taken in the Australian Budget 2004, when the rate of abatement for family assistance was reduced from 30% to 20%. The Australian system does not have any per-child tax incentives for working families alone. The United Kingdom has a working tax credit, but this is for all workers, not just those with children, while the United States Earned Income Tax Credit is tailored to reward extra hours of work rather than being a lump-sum payment (see chapter 7).

The Parental Tax Credit and the Family Tax Credit

The other aspects of the 1996 Family Plus package have been relatively minor in their impact. The Parental Tax Credit gives additional Family Support to parents for six weeks with a new baby if they meet all the discriminatory criteria of the CTC.

The Family Tax Credit is also minor in its impact, being received by only 3000 families in 2004 (Ministry of Social Development, 2002-2004). The purpose of it is to guarantee a minimum income for those who meet the hours worked requirement of 30 hours for a couple or 20 hours for a sole parent. However, this measure not only maintains, but also sets a ceiling on a basic income: it has the unfortunate design feature that any extra income earned reduces entitlement dollar for dollar, so that families do not get any extra money for working until they are earning over the maximum entitlement sum – the effective marginal tax rate is 100%.

The 2004 Budget package discussed in the next section includes a rise in the rate of the Family Tax Credit. Overall this increase represents only 1% of the total increased spending (Ministry of Social Development, 2002-2004), however it is clear that more families will qualify for this complex payment from 2006.

The need to repay family assistance

It is widely believed that money specifically allocated for children is more likely to be spent on children if it goes to their principal caregiver. Tax credits that are uncertain, perhaps not accessed until the end of the year, are more likely however to be absorbed in the main earner's tax position. Family Support is usually paid to the principal caregiver, but some families wait until the end of the year and claim it as an end of year rebate. It is possible for families who don't do this to find they have earned more than they anticipated and to have to pay some back - very difficult to do on a tight budget.

It is welcome that the increasing level of tax debt is being tackled by the IRD, by warning families early of possible family assistance overpayment.

The Inland Revenue Department now recognises the problems that arise when families find they need to pay back some of their Family Support in the end of year reconciliation because they have earned too much money. The increasing level of debt is being tackled by initiatives whereby the IRD warns families of possible overpayment by monitoring their income during the year. This is welcome, because it reinforces the policy objective that Family Support should provide regular fortnightly payments for the child to the caregiver. There is, in effect, a real-time reconciliation reducing the possible negative consequences of increased earnings.

The neglect of family assistance: a sorry, repeating history

> *The declining real value of Family Income Assistance has been a key contributing factor to inadequate family income.*
>
> (Ministry of Social Development, 2002-2004)

The history of family assistance in New Zealand has been one of neglect and of moving away from universal child-focussed payments to tightly targeted tax credits which are not indexed to inflation. From post war security when there was a meaningful and universal family benefit, low-cost medical care and affordable housing, New Zealand has increasingly targeted assistance to the poorest families only. Some of those with the interests of the poor at heart expected that concentrating on the poor and cutting payments to the better-off would mean the poor could be treated more generously. Instead, it seems to have made it easier to marginalise and neglect the poorest as they have little political clout (St John & Rankin, 2002).

The analysis given here is for children aged under 13. While Family Support for a second child aged 13 years or over was increased in 1993 and 1996-1998, as shown in Table 3, there have been increases in user charges for education and losses of other assistance for older teenagers. More research is required to ascertain the real position of those with older children and this is not attempted here.

Family Support equivalents for the poorest one child family have risen just five dollars since 1986, from $42 to $47. The loss of purchasing power has been such that today they should be getting $78.

Over time, the effect of inflation in reducing the spending power of family payments has been considerable. We can demonstrate this by charting the real maximum value of family assistance over time. Only the poorest children get the maximum, so looking at the real value of the maximum assistance over time is a good indicator of how disadvantaged they have become.

To illustrate, just for the *poorest*, take the example of a one-child, two-parent family on a benefit. In 1986 their combined Family Support and Family Benefit was $42 a week. Today, after nearly 20 years of inflation, their maximum Family Support is just five dollars more at $47. The loss of purchasing power has been such that today instead of $47 they should be getting $78.

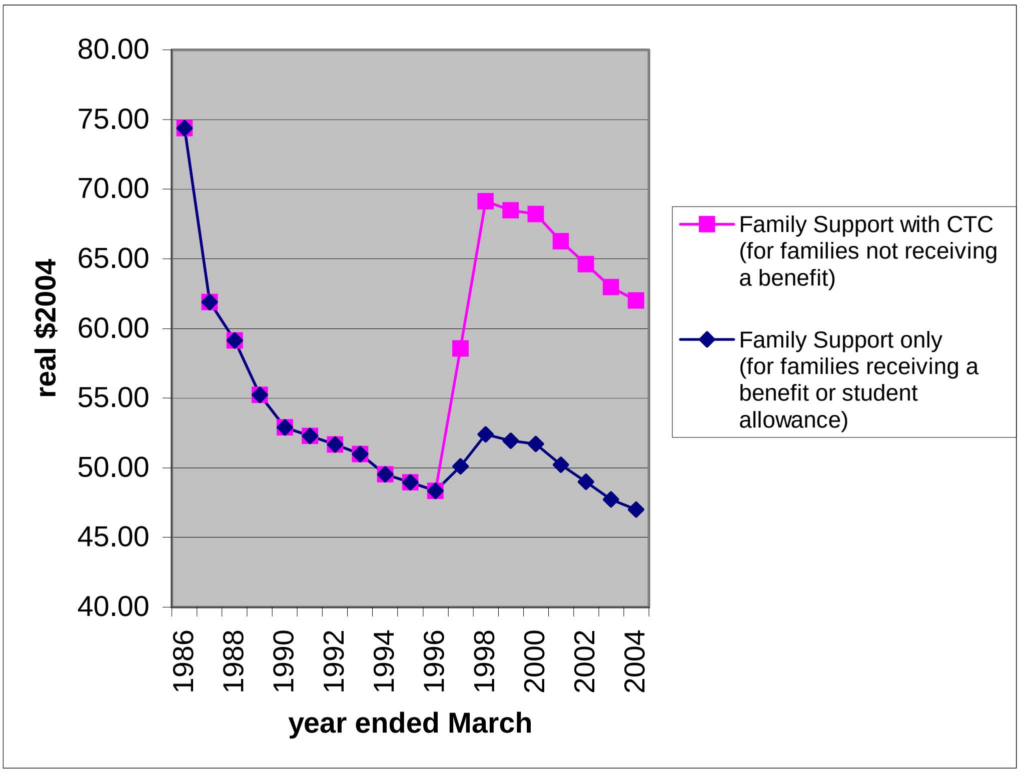
This was acknowledged in the cabinet papers:

> *The real value of Family Support has declined over 10 percent since it was last increased in 1998. If Family Support had been adjusted for Consumer Price Index movements since it was introduced in 1986, the current rate of $47 would now be $78 a week. The value of the Child Tax Credit and the Family Tax Credit has also declined since they were last adjusted in 1998. The non-adjustment of Family Income Assistance is frequently cited by commentators such as the Child Poverty Action Group and the OECD as a key factor contributing to adequacy problems in the social assistance system.*

(Ministry of Social Development, 2002-2004)

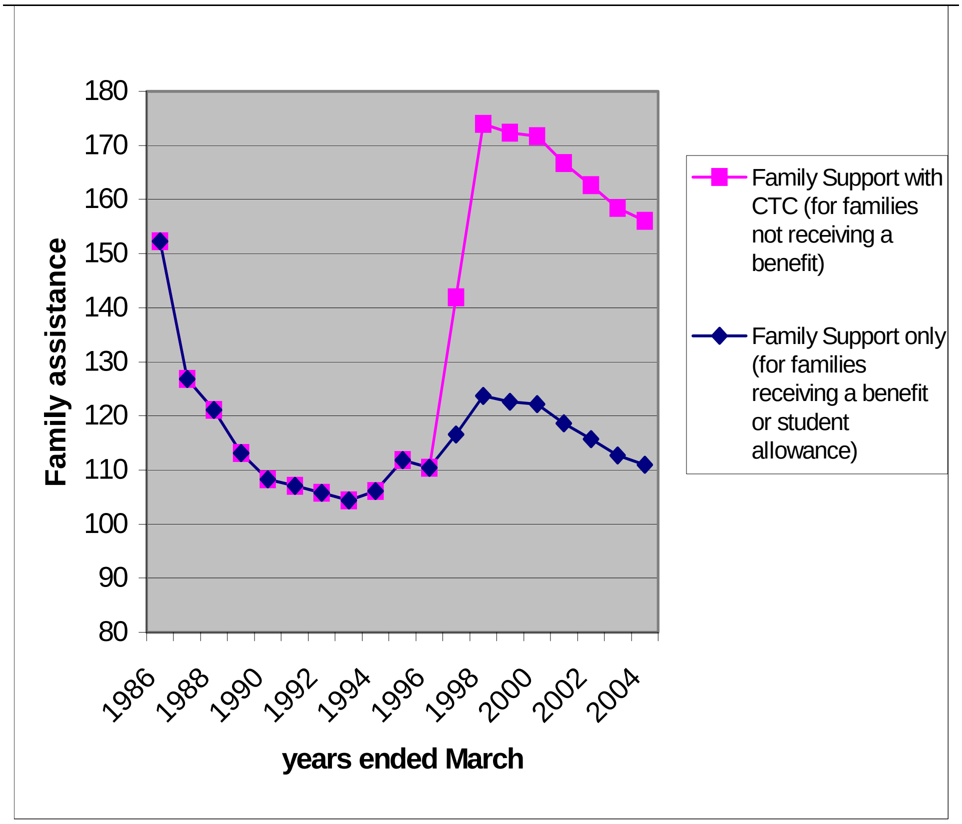
The loss experienced by these families is illustrated by the lower line in figure 6. The situation is slightly better for larger families and the lower line in figure 7 shows the case for the three -child family. It must be remembered that families on benefits also had a significant cut in their core benefit income in 1991, which is not shown here.

Figure 6: Maximum family assistance for one-child families 1986 – 2004 (real $2004)



Source: St John (2004)

Figure 7: Maximum family assistance for three-child families 1986-2004 (real $2004)



Source: St John (2004)

While Family Support was eventually increased between1996 and 1998, $15 of this increase was carved off for those in work and called the Child Tax Credit (CTC). In effect what happened was that around 300,000 poor children were all denied $15 a week of their rightful compensation for past inflation, which children of families in work received as shown by the top lines in figures 6 and 7. While $15 may not sound much, it is a highly significant amount for families on tight budgets and buys a lot of bread and milk. One way to see the price paid by families denied the CTC is that they have saved the government over two billion dollars since 1996, a result reflected in the high debt levels found among poor families. Low income families' struggles to absorb these costs have allowed Government's operating surpluses to be higher.

In effect, the discriminatory nature of the CTC denied 300,000 poor children $15 a week of their rightful compensation for past inflation.

Denying benefit-receiving families the CTC has saved the government over two billion dollars since 1996, while creating high debt levels among poor families.

Families on incomes above the thresholds

Families on incomes that were higher than the thresholds for maximum Family Support lost much more ground. This was because the thresholds remained unadjusted for long periods of time and the rate of abatement, or loss of family support with extra income, was sharp.

Tables in Appendix I show that, by 2004, the one-child family on an income at 75% of total average weekly earnings had lost 63% of the purchasing power of the their family assistance even with the CTC. By the time income was at 100% of average weekly earnings, entitlement to any assistance at all had disappeared. Similarly, larger families on income above the threshold lost out severely, on average weekly earnings. Even with the CTC they were seriously worse off in 2004 than they had been in 1986 when Family Support was introduced (St John, 2004).

5. The 2004 Budget and child poverty

What is the focus of the Working for Families package?

For families on benefits, 'Working for Families' is a matter of receiving with one hand (increased Family Support payments) while losing with another (reduction of core and special benefits).

So, what does the 2004 Budget, flush with surplus and long heralded as addressing inequality, deliver for poor children? The answer is quite complex and, as we have already stressed, very much depends on whether their parent(s) are employed. For in-work families not receiving any benefit, it eventually delivers quite a lot. For families on benefits, it's a matter of giving with one hand (increased Family Support payments), while taking with another by:

- the reduction of core benefit
- the loss of some of the Special Benefit
- other measures such as increased penalties for solo mothers who don't name the father of their child(ren).

Overall, the changes are generous and even ingenious in finding ways to subsidise and transfer money to workers, and rigorous in maintaining the differences between workers' children and children in families receiving a benefit.

Table 6 sets out the main changes to family assistance announced in the 2004 Budget. From 1 April 2005, there will be a rise in Family Support for the first child of $25 per week for all low income families and $15 for each additional child, with a further $10 per child promised in 2007. The Child Tax Credit (see the discussion in chapter 4 above) remains until 2006, when it is replaced by the In Work Payment (IWP), which continues and strengthens the CTC's rewarding of those in work. The IWP is more generous than the CTC, but much more complex as it requires a minimum number of hours worked per week. At this time, the two thresholds (see box on page 36) for Family Support (and IWP) are replaced by a single threshold of $27,500, but the rate of abatement remains at 30% on income above this level.

Table 6: Working for Families - maximum family assistance, 2005-2007

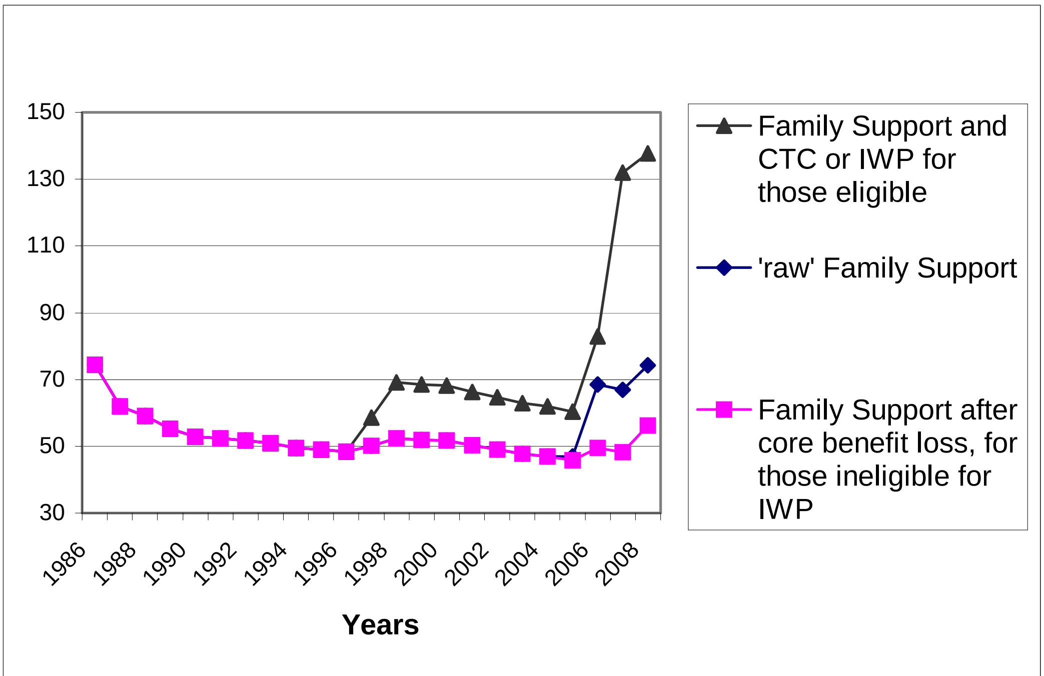
Maximum family assistance	Pre April 2005	1 April 2005	1 April 2006	1 April 2007
Family Support				
First child	47	72	72	82
Subsequent children	32	47	47	57
CTC				
Each child	15	15	0	0
IWP				
Per family $ per week	0	0	60 + $15 for each additional child in families with more than three children	60 + $15 for each additional child in families with more than three children
Thresholds for abatement	$20,356 $27,481	$20,000 $27,481	$27,500	$27,500

Source: derived from the Ministry of Social Development website

There is a raft of other changes, including a more generous treatment for those accessing the Accommodation Supplement and child care subsidies. There is a further targeting of support for people in work through an adjusted Family Tax Credit, which ensures working families a minimum net income of approximately $17,000 from 2006 (Ministry of Social Development, 2002-2004, May 04). However, all these changes are largely designed to assist families when they work. For example, the Accommodation Supplement will no longer abate when extra is earned while people are on benefits. The rates of payment and income levels for abatement for those not on benefits have also been increased for those living in high rent areas (cities, especially inner districts). Although these increases are welcome, there are concerns that this method of financing housing assistance entrenches a system that delivers a subsidy to the landlord rather than the tenant (Johnson, 2004).

On the surface, as figure 8 below for a one child family illustrates, these changes will eventually restore the real maximum level of purchasing power of Family Support (middle line), and increase the amount of family assistance for those entitled to the IWP (upper line) by almost double that. However, all the lost purchasing power of the past 18 years is not recouped. The fallout from this remains in the form of poorer outcomes for the low income children who grew up in those years, and high debt levels for families today.

Figure 8: Maximum per week real family assistance 1986 – 2008
One child family ($2004)



Source: St John (2004)

How are families in work affected?

As we have suggested, the increases in Family Support can be seen as simply catch-up after years of neglecting inflation adjustment. In the past, real assistance has fallen both because *ad hoc* adjustments to the level of maximum assistance have not fully compensated for inflation and because, as wages rise with inflation, a fixed threshold for abatement results in reduced entitlement.

Tables i-iv in Appendix 1 show changes in the real value of family assistance from October 1986 to 2008 for typical low-income families of different sizes. From 2008, all aspects of family assistance will be indexed and adjustments made once the Consumer Price Index shows a cumulative increase of 5%. While this is very welcome and will prevent the insidious erosion that the analysis here shows has occurred since 1986, there seems little reason for it not to be a simple *annual* CPI adjustment such as is done for other benefits.

Table i in Appendix 1 shows the real value of family assistance for a typical one-child low income family. This could be either a sole parent, or two-parent, one-earner family. The income level is taken to be 75% of Average Total Weekly Earnings (AWE) averaged for male and female (Statistics New Zealand AWE series). It is assumed that this hypothetical family's income rises in line with movements in the AWE. Two positions are indicated for 2005-2008, one for Family Support alone, the other where there is entitlement to the CTC.

Table ii shows the same small family on 100% of AWE, while Tables iii and iv show the position for a family of two, and three children respectively on 100% AWE. While many other combinations of family size and income could be displayed, these tables are sufficient to allow some basic conclusions to be drawn.

Yes, Working for Families provides very significant gains, if you are eligible for them.

It is clear that once the package is fully implemented (year ended March 2008), the maximum value of Family Support will have been restored in real terms. Once the CTC and the IWP are also factored in, substantial real gains are made both at 75% and 100% of AWE. The largest gains in Family Support are made by the one child family: with gains of 59% at 75% AWE and 40% at 100% AWE. The 2-child family on 100% AWE gains 36%, and the 3-child family on 100% AWE gains 32%. Yes, these are very significant gains for those families who are eligible.

What about children in families on benefits?

So far, the changes may appear reasonably generous: they have certainly been presented that way. But the devil is in the detail when it comes to what people actually get from these changes.

The reduction of the core benefit means that benefit receiving couples with one or more children and sole parents with two or more children can only expect between $7.46 and $12.50 a week per child extra in 2005.

Families who miss out on the work-related payments because of their relationship with the benefit system appear to have their Family Support restored in real terms by 2007, as illustrated for the one-child family in figure 8 (the "'raw' Family Support" line). Their actual gain however is offset by adjustments in 2005 that actually remove the child-related components of the core benefits. For a couple on a benefit with children, the margin of $17.14 per week above the childless rate is to be removed. For sole parents with one child, the $70 paid above the single (over 25 years) benefit rate is not affected, but the supplement of $21.40 for two or more children will be removed. The impact of an approximately $20 adjustment for the one-child family is shown in figure 8 by the third line ("Family Support after core benefit loss").

The savings from core benefit reduction are estimated by government to be substantial: $146m by 2007/8. The cabinet papers make it clear (see table 7 below) that this reduction means that couples with one or more children and sole parents with two or more can expect only between $7.46 and $12.50 a child extra in 2005. After waiting for so long it will not even provide a significant catch-up for inflation.

Figure 8 shows that a big gap has opened up between the family 'in work' and those not 'in work'. The gap arose originally because of the CTC, and from 2007 the gap increases with the introduction of the IWP. For one and two child-families, the gap is very pronounced, as the IWP is set at $60 for all families of three or fewer children. In effect the Child Tax Credit has now been expanded under the new name of the IWP, making the one child (working) family $45 better off, the two child family $30 better off and all other families $15 better off than they were with the CTC.

Table 7: New rates of benefits and student allowances

Benefit	Estimated weekly benefit rate from 1 April 2005	Estimated* net gain from Family Support increases and benefit change for beneficiaries with no other earnings		
		One child	Two children	Three children
UB, SB married couple	$279.87	$7.46	$22.46	$37.45
DPB/WB	$240.53	$25.00	$18.11	$33.11
UB/SB sole parent	$240.53	$25.00	$18.11	$33.11
IB/DPB–CSI sole parent	$275.74	$25.00	$19.63	$34.63
Student Allowance with dependents – 1 eligible	$240.53	$25.00	$18.11	$33.11
Student Allowance with dependents – both eligible or 1 eligible and 1 dependent	$279.87	$7.46	$22.46	$37.46
Student Allowance – sole parent	$240.53	$25.00	$18.11	$33.11

*Exact rates and increases will depend on CPI movement up to December 2004

Source: Ministry of Social Development, 2002-2004 (Mar 04)

Families on benefits, of course, continue to receive nothing from work incentive payments at all. The intent of this expensive structure has been to try to abolish the direct linking of the IWP to the numbers of children in a family while at the same time making no family "worse off".

An estimate of the number of children in families left behind can be gauged from the numbers recorded in families on benefits. In 2003 approximately 25% of dependent children under 18 (253,000 children) lived in families supported by a main social welfare benefit (see table 2). While the previous section showed that not all children in beneficiary families are in poverty, a large proportion are and the others will also fall further behind, relative to those in work, as a result of the IWP.

Impact of the loss of the Special Benefit

The declining value of Family Income Assistance is contributing to increasing use of Special Benefit. Instead of last resort assistance to a small minority of beneficiaries to alleviate financial hardship, Special Benefit is increasingly becoming a general income top-up.

(Ministry of Social Development, 2002-2004) Mar 04

What is not highlighted in existing Budget information and analysis is the impact the loss of what is called the 'Special Benefit' will have on many of the poorest benefit dependent families. Over 80% of all children supported by a benefit live in sole-parent families. Many of these families have been unable to survive on the core benefit alone, and have also received a Special Benefit to recognise essential commitments that they are unable to meet from their income, in particular food and rent. To emphasise: the special benefit has targeted money to bottom line living essentials for the poorest families, and it is these families who will most miss it when it is reduced. The numbers of sole parents in 2003 getting a Special Benefit increased about three and a half times between 1999 and 2003 to a total of around 16,000 (Ministry of Social Development 2003).

The Special Benefit is expected to reduce by $13.43 a week on average, compared to the $27.51 average increase in family assistance.

The cabinet papers argue that the increase in Family Support from 1 April 2005 will reduce the need for hardship assistance. Family Support will be included as income in the assessment for the Special Benefit and the formula tightened. This is expected to reduce the Special Benefit paid to 31,000 families with children by an average of $13.43 a week, which is compared to the $27.51 average increase in family assistance. In an estimated 1206 cases, the Special Benefit will decrease by more than the family assistance increases. These families will be dependent on discretionary treatment to ensure they are “no worse off” (Ministry of Social Development 2002-04, May 04).

> *Family Support will be considered part of a family’s income for Special Benefit. This will result in Special Benefits being reduced by an average of about $13.50 a week, compared to an average increase in Family Support of about $27.50 a week. No family will lose more in Special Benefit than they gain in Family Support.*
> *Families receiving increases in their Accommodation Supplement will have their Special Benefit reduced by the amount of the increase. This is what normally happens when there is an increase in Accommodation Supplement.*

(Working for Families Fact Sheet 10)

Special benefit calculations are highly complex and the changes certainly do not simplify things. To take the example of sole parent Ann, whose case is cited in the Working for Families fact sheets (see also page 9 above). Under the existing policy, her special benefit rate is the lesser of 30% of allowable costs or the actual deficit between income and standard costs. Currently, Ann's 30% of allowable costs are at least $84, (based on her rent alone of $280 a week), but her actual deficit on the formula is lower, at around $45. WINZ currently have discretion to pay the higher amount.

Those granted the new Temporary Additional Support – the poorest of the poor - will have to find the first $20 of their deficit every week. Where they are supposed to find it is unclear.

Under the new policy, 30% of her allowable costs are only $70.00 and her deficit is only $32. Either way, her Special Benefit will fall by about $13 a week.

Then, in 2006, the Special Benefit will be transformed into Temporary Additional Support (TAS). While the full impact of this policy is not clear, it appears that it will further disadvantage many families needing hardship assistance. To understand how this works for poor families, we need to understand both the “gap” and the “cap”.

The policy detail is yet to be decided, but if introduced as indicated on Budget day, those granted the Temporary Assistance Support will have to find the first $20 of their formula-derived deficit or “gap”. The “gap” policy is a reintroduction of one that existed at the time of the 1991 benefit cuts - a policy which was gradually removed during the 1990s, with a reduction of the gap firstly to $10, then $5, before finally being removed in 1998 because of the impractical effect it had on people needing the Special Benefit. Then and now, a question is raised as to where these poorest of the poor are supposed to find this $20 per week.

The second problem is a "cap", whereby the maximum TAS is to be no more than 30% of the main benefit rate (for Ann this will be $72). In a typical case, 30% of the "allowable costs" will be higher than 30% of the main benefit, especially for families facing the high cost of raising children (Graham Howell, Downtown Community Ministry).

The net effect of all this for the poorest families is a reduction in what might otherwise have been an increase to their income from raised Family Support. This is clear from the fact that the government expects to make savings from this policy change as shown in Table 5 (estimates are $91m by 2007/8). The government has argued that once the increase in Family Support is allowed for, no family should be 'worse off'. Unfortunately, this means some families will therefore get very little indeed from the Budget package and the poverty of their children will remain unrelieved.

Ann, remember, has two children and lives in Manurewa. Her total income is $478.52 a week in the hand, from the Domestic Purposes Benefit ($256.52), Family Support and Accommodation Supplement ($143), which after the rent of $280 is paid, leaves $198 for all other expenses.

After the core benefit reduction she gets an extra of just $9.50 a child per week between April 2005 and April 2007, rising to an average of $19.50 each child in 2007. However, as established earlier, she could also be receiving a Special Benefit. After it is reduced, her gain from Working for Families could be as little as $3 a child per week in 2005 and be only $13 a child in 2007.

The government expects to save $91 million a year by 2007/8 through the reduction of hardship assistance.

In contrast, another scenario in the budget papers considers a still low income but better-off family, Aroha, Robert and their two children, who live in Wairoa. Between them, they work 60 hours a week, earning $37,440 gross per year. They pay rent of $120 per week, and pay $69 per week in childcare costs. Their total income from work and family assistance is $621.96 a week in the hand, plus $23.00 a week Childcare Subsidy. Ignoring the extra they get from increased child care subsidies ($48), this couple get an additional $114 every week in family assistance from 2007 - $57 average for each child - even though they are far better off than Ann in the first place.

Furthermore, legislation in 2004 increases the existing penalties imposed on single mothers on benefits who don't name the father of their child. The Social Security (Social Assistance) Amendment Bill increases the penalty by $6 per week per family.

> *Mothers who don't name the father are already penalised $22 per week, per child. It means a Mum who is already struggling to bring two kids up, but who doesn't feel able to name their father, will have $50 stripped from her family budget.*

(Sue Bradford, Social Services spokesperson, Green Party)

Once this Bill becomes law, a mother on the DPB with one affected child will lose $28 a week from her benefit; and a mother with two affected children will lose $50 a week.

Aroha and Robert in one example get an additional $114 a week, compared to Ann in another example who only gets an extra $26 a week – even Aroha and Robert are better off than Ann in the first place.

Can't we afford to do better than this?

Given all of the above, plenty of people are asking, is that it? Is that all the government, flush with the biggest surplus in decades, can really afford? Certainly Working for Families was presented as a big budget line item for this government. But its actual size needs to be carefully understood. The full cost of about $1 billion per annum will be felt only when the package is fully implemented in 2007. It's still a lot of money; but against a $7 billion annual 'surplus', after three years one billion a year sounds a good deal less. It also represents a good deal of inflation catch-up without back pay, rather than new spending.

Against a $7 billion annual 'surplus', the Working for Families cost of $1 billion a year doesn't sound like so much.

Table 8 shows how the various components of the Working for Families package affect the government's budget based on a June year. There is very little for children in the 2004/05 financial year ended June, as the bulk of the improvement to the Accommodation Supplement goes to those without children, and the first increase in Family Support does not come until 1 April 2005.

Table 8: How much will it cost? ($million)

WFF package	2004/05	2005/06	2006/07	2007/08
Increasing family incomes and making work pay	96.30	503.01	764.99	1,007.56
Changes to Accommodation supplement	63.00	128.74	141.70	146.22
Changes to Childcare subsidies	18.80	31.03	34.24	34.55
Changes to hardship assistance	-7.36	-44.94	-75.76	-91.18
Total	170.74	617.84	856.17	1,097.15

Source: Working for Families Fact Sheet 1, Budget 2004 information

So, again, by the time the package is fully implemented, the government is spending an extra one billion dollars a year, but this is not until the 2007/8 year. The savings that have been achieved by core benefit reduction and changes to the special benefit (a total of $237m by 2007/8) have come from the pockets of those on benefits. A poor child who was three in 1996 when the CTC was introduced will be a teenager by 2007/8 and the damage of poverty done.

A poor child who was three in 1996 when the CTC was introduced will be a teenager by 2007/8 and the damage of poverty done.

At the same time, government is squirreling away billions of dollars to care for the well-being of older New Zealanders. At the end of the day, there has to be a debate about priorities. This is long overdue.

Other changes: Childcare subsidies and the Accommodation Supplement

There is, however, a little more to this package than just income support. Other parts of the Working for Families' package were designed to help with the costs of childcare, largely for working families and with housing. Direct assistance for child care is necessary as the major hurdle that working parents face is lack of quality affordable childcare, while housing costs have become the largest single influence on low income families' budgets.

Childcare subsidies

Childcare subsidies for preschool children are determined by parental income and paid to approved licensed childcare centres, family day care projects or chartered Kohanga Reo. They can also be paid to approved out of school care and school holiday programmes (OSCAR) for school age children. For parents in work or study, or special circumstances, the childcare subsidy can be for up to 50 hours a week. An OSCAR subsidy can be for up to 20 hours per week during term time, and up to 50 hours during school holidays. Parents not in work or study can get a Childcare Subsidy for up to nine hours a week.

The hourly rate of childcare subsidies and the income levels at which they apply have increased. However, the targeting is crude: earn one dollar more than $949 pw, and you lose $86 worth of subsidy pw.

The Working for Families package increased the hourly rate of subsidy and the income levels at which they apply as shown in table 9. The projected cost is $31 million from 2005/6. This increase was long overdue. The table shows that the reduction in subsidy as income increases is severe. For example if a two child family earning $949 a week ($49,348 a year) in 2004/5 is using 50 hours of childcare, the total subsidy is $284 a week. Another dollar earned causes the subsidy to fall to $198, a loss of $86 a week (to earn a dollar but as a result to lose $86 illustrates the crude nature of the targeting). By an annual income of around $58,000, they get nothing at all. As Chapter 7 explains, in the United Kingdom the child care subsidy is added to the working tax credit and abated with the rest of that credit at a uniform rate of 37%.

Table 9: Childcare subsidy or OSCAR subsidy rates

No of children in family	The family's weekly income before tax	The subsidy from 4 October 2004 (per hour) per child is	The subsidy from 4 October 2005 (per hour) per child is
One	less than $770	$2.84	$3.12
	$770 to $849.99	$1.98	$2.18
	$850 to $929.99	$1.10	$1.21
	$930 or more	no subsidy	No subsidy
Two	less than $950	$2.84	$3.12
	$950 to $1,039.99	$1.98	$2.18
	$1,040 to $1,129.99	$1.10	$1.21
	$1,130 or more	no subsidy	No subsidy
Three or more	less than $1,110	$2.84	$3.12
	$1,110 to $1,219.99	$1.98	$2.18
	$1,220 to $1,329.99	$1.10	$1.21
	$1,330 or more	no subsidy	No subsidy

Source: WINZ web site

Accommodation Supplement

An Accommodation Supplement may be paid to families and single people, whether on benefits or not, to help with high housing costs.

As per the 2004 Budget, from 4 October 2004 the entry thresholds and income before abatement were increased for working people, while those on benefits no longer have any of their Accommodation Supplement reduced for income earned up to $80 gross a week. From April 2005 there will be changes to the maximum rates and where they apply, as set out in table 10. The budget increases will cost around $130m in 2005/6, but these increases are not just for families with children, and they reflect the increase in rents in expensive parts of Auckland in particular.

Table 10: Maximum Accommodation Supplement rates ($)

Maximum weekly rates 2004			
	1 person household	2 person household	3 person household
Area 1	100	115	150
Area 2	65	75	100
Area 3	45	55	75
Maximum weekly rates from 1April 2005			
Area 1	145	160	225
Area 2	100	125	165
Area 3	65	75	120
Area 4	45	55	75

Source: Working for Families Fact Sheet 3

Complexity and uptake issues

Clearly, what we have here is an extraordinarily complex system, where poor families may or may not get all of their entitlements, and where they face ongoing uncertainty about overall income levels, what they might need to pay back, and so on. All of these factors are widely recognised as barriers to uptake: what poor families need above all is a clear, simple and stable source of support. The government clearly recognises this, and is moving towards a single benefit in an attempt to remove such obstacles. However, such complexity is also good ground for a more significant step: a universal child benefit, along the lines of the old family benefit, and as still usefully deployed in the United Kingdom (and to a significant extent, Australia) today.

Income splitting- is this an option?

Because it favours those on the top tax rates, income splitting cannot be a solution to child poverty. Generous and inflation indexed child-related tax credits are a much better answer.

Some politicians are advocating income splitting as the best method of helping families get the money they need. Income splitting allows couples to add their incomes together and each pay tax on one half. In a tax system where taxes rise more than proportionately with income this can give a substantial benefit, especially when the main earner is on the top tax rate of 39%. It may sound like a nice way to encourage the nuclear family (while ignoring the ever-increasing percentage of families who do not fall into that category). Mum can stay home with tax advantages that rise with the level of her husband's income. While the single earner family has been ignored and some recognition of the caregiver’s role is overdue, income splitting cannot be a solution to child poverty. The winners are not the ones who need the most help. Under income-splitting the greatest tax gains go to the highest single-earner family, while giving nothing to sole parents, nor to those two-income families where income is earned equally. Many poor families are in the last two groups.

Generous and inflation-indexed child-related tax credits are a much fairer and more certain way to help the families who are struggling the most.

6. Assessing the In Work Payment

One of our workers came to lunch distressed after experiencing the pain and tears of a mother. Her husband was made redundant six weeks ago, unable to pay the rent for their two bedroom flat. The mum and dad and two children's only alternative was to move in with another family. Unfortunately, they now find that they have moved their children into a household of people heavily into P and criminal activities. This mother had become petrified at what was going to happen to her children.

(Roberts, 2004)

Papers provided by the government on the internet outline the work programme that lay behind the *Working for Families* package (Ministry of Social Development, 2002-2004). It is clear that from the outset the intention was primarily to improve the returns to paid work.

The last of the cabinet papers lists the key policy objectives of Working for Families:

- make work pay by supporting families with dependent children so that they are rewarded for their work effort
- ensure income adequacy, with a focus on low and middle income families with dependent children to address the issues of poverty, especially child poverty
- achieve a social assistance system that supports people into work, by making sure that people get the assistance they are entitled to, when they should, and the delivery that supports them into, and to remain in employment (Ministry of Social Development, 2002-2004, Apr p2).

The incentive of the In Work Payment for sole parents is not for extra hours of work but for being clear of the benefit system.

Officials expected that the In Work Payment and the Family Tax Credit would provide “improvements in work incentives, especially for sole parents”. Given that the IWP and the Family Tax Credit require sole parents to be working 20 hours a week regardless of the number of children they have (or the rate of pay), the government-provided incentive is not for extra hours of work but for being clear of the benefit system.

An example from the budget papers in illustrates the point:

Mary has a four year old child, lives in Onehunga and receives the Domestic Purposes Benefit. She gets additional income by working 30 hours a week at $11 an hour. Mary’s rent costs $255 a week and she gets $115 Accommodation Supplement. Mary’s total income from work, benefit, family assistance and Accommodation Supplement is $488.72 a week in the hand plus $63.00 a week Childcare Subsidy.

Working for Families will make Mary much better off if she continues working 30 hours a week while receiving the benefit. She will get more Family Support and Childcare Subsidy and, because she lives in the Accommodation Supplement Area 1, will receive more Accommodation Supplement. In total, she will get $101 a week more in the hand. After 1 April 2006, Working for Families will provide a real incentive for Mary to move off benefit altogether to work 30 hours a week. The new In-Work Payment and increased Family Tax Credit, added to more Family Support and Accommodation Supplement, will make her $161 a week better off overall.

Working for Families Fact Sheet 7

Ludicrously, "Mary" can go from the DPB to the In Work Payment without working any more hours or earning more or being any more independent of the state. Benefits are now sufficiently stigmatised to make getting people off them an end in itself.

This triumphant scenario is quite ludicrous: Mary actually receives more money from the government in the form of various top-ups to her wages than she was getting on the DPB, while working the same number of hours. However, because she is in (effectively highly subsidised) work, she can now be removed from the category of 'benefit-receiving' and put into a different basket as 'working', even though in many ways, she's no more independent of the state than before. While it is good that Mary will get more money, it does show that being on a benefit is sufficiently stigmatised under this regime to make getting people off it now an end in itself – whether or not the money changing hands from government to parent is reduced or not.

The state top-ups to wage income she now qualifies for (through no changed action of her own) are just as complex, if not more so, than the DPB and, worse, when Mary loses her job, or has to cut her hours to under 20 a week, or decides to retrain, she loses the IWP and the Family Tax Credit. In sum, then, there is little real security for either her or her child.

Does it improve the incentive to work?

In fact, Mary is not so common a case as might be imagined. For many people, the incentives to work enough while on a benefit to move off it when Working for Families comes into full force remain small indeed. Perhaps this is why Treasury is predicting only 2% of sole parents will be motivated by the Working for Families package to make this shift (Ministry of Social Development, 2002-2004).

There are, however, some real positives in the Budget for people wanting to move into work. It provides for the removal of the abatement of the Accommodation Supplement for the first $80 a week earned by a beneficiary. This is a genuine incentive, and the saving of $20 from that move is very welcome.

Treasury is predicting that only 2% of sole parents will be motivated by Working for Families to make the shift off benefits and into work.

Likewise, the raising of the threshold for Family Support from $20,000 to $27,500 in 2006 will provide a sound work incentive for low income people earning in that range (as they no longer lose Family Support when their wages go up). The fact the threshold will be indexed from 2008 is also very welcome. It is a great pity that such approaches were not extended as they are genuine ways of rewarding the extra effort of extra work.

Working families earning more than $27,500 pay a price for their extra support in the budget because they face very long income ranges over which extra money earned does not make very much difference (Nolan, 2004). For example, a family on an income of $38,000 will typically face an effective marginal tax rate (EMTR) of 74.2%. In that instance, an extra $1000 earned results in liability for $330 tax, $300 loss of Family Support including the In Work Payment, $100 repayment of student loan (if it applies) and $12 in ACC. This leaves only $258 in the hand. In addition there may be other abatements that add cumulatively to the EMTR, such as child support payments, the accommodation supplement and child care subsidies. These high EMTRs can be assumed, a priori, to provide a significant disincentive to earn extra income.

A family on $38,000 will typically face an EMTR of 74.2%; for every extra $1000 earned, only $258 will be left in the hand.

As the recent North and South article entitled 'Why Strive and Struggle?' points out this abatement effect lasts all the way up to an income level around $60,000.

> *By 2007- after tax and ACC levies are deducted and family assistance and accommodation supplements are added - there will be only $2376 difference in net income between a one income, two parent families with two young children living in South or West Auckland earning $38,000 gross and that same family earning $60,000 gross. (Larson, 2004)*

One of the ironies of the Working for Families package is that in the government's determination to provide a large gap between being in work and being on a benefit in order to create incentives to work, the problem of poverty traps has just been shifted up the income scale. In other words to create the incentive for the poorest to work, not only must low benefits impoverish them, but when they are rewarded with a lump of money for working, abatement impacts severely on the additional income. Thus working families are discouraged from working extra hours a long way up the income scale. In a booming economy with plenty of overtime available this will be a source of frustration to employers and families alike.

Ironically, work incentives for middle income families have decreased due to the government's determination to create work incentives for those on benefits.

But there is an alternative: the Australians confine the EMTR problem by initially abating only part of family assistance, so that there is a sizable amount that is essentially universal for most families except the highest income earners (St John, 2003). Second, the tax on incomes up to $6000 is zero and part of the family assistance is abated against only the caregiver's taxable income. Third, and most significantly for work incentives, the 2004 Australian Budget reduced the rate at which their family tax credits abate from 30% to 20%, and the abatement threshold is adjusted each year for inflation (for details of the Australian system see chapter 7).

The legality of the 'In Work Payment'

The New Zealand government has clearly recognised the Human Rights implications of the discriminatory approach taken by the 2004 Budget.

> *… the Working for Families package raises a number of issues of inconsistency with the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993.*

(Ministry of Social Development, 2002-2004, Dec Paper)

"the Working for Families package raises a number of issues of inconsistency with the [NZ] Bill of Rights Act 1990 and the Human Rights Act 1993."
- Min of Social Development

The IWP is best seen as an upgraded CTC, broadening out the CTC privileging of "in work" families. It was clearly hoped that by changing the name so the word 'child' does not feature, and by making the rate less conditional on the number of children the new IWP would be seen as a work incentive, not a means of providing income adequacy and relieving child poverty. The discussions around the introduction of the IWP reveal this:

> *The rationale for the structure of existing incentive measures is unclear. The fact that the Child Tax Credit combines a work-related support with child-related support can cause confusion, it can tend to distort the debate about the level of support that should be provided for particular purposes and makes it difficult for the government to send clear messages about the purposes of particular forms of assistance. For example advocacy groups have criticised the fact that the Child Tax Credit is only available to working families on the grounds that it discriminates against children in households on benefit*.

(Ministry of Social Development, 2002-2004)

Nevertheless, although the IWP is touted as purely a work incentive, it is still inextricably linked to children. The features of the IWP are similar to the CTC in practice, and in the ways they create strange confusions of policy goals, tangling up child-related income security with workforce participation. Remember, the CTC was paid to low income families with children primarily because they worked, not primarily because they had, as the name suggests, needy children. Now, the IWP inverts and extends the confusion, mixing up child poverty-targeted income and work policy incentives by paying the work incentive to the caregiver of the child (who may not be 'in work') not the worker. This is in important contrast to the working tax credit in the United Kingdom, which is much more clearly related to work, not children. To add to the mix-up of child and work policy, both the CTC and the IWP remain related to the numbers of children (IWP is only the same for one, two and three child families).

The rules of independence from a state benefit are the same for the IWP as for the CTC, except that the worst cases of exclusion for those on Superannuation and ACC are removed for the IWP. The IWP still discriminates against families receiving student allowances however, as well as those on sickness, domestic purposes and unemployment benefits. Moreover, the IWP and the CTC are treated the same for abatement purposes by being added to Family Support. In the United Kingdom, the working tax credit is abated first to emphasise its purpose in encouraging the transition to work.

But the IWP does differ from the CTC in ways which will add further to negative effects on poor, sole parent families. Perhaps in order to reinforce the perception that the new IWP is not just the old CTC and is more clearly a work incentive, claimants must now meet the criteria of a certain number of hours worked. This just adds to the complexity. Former Treasury economist Patrick Nolan who has specialised in families economics has been quoted as saying he is 'not sure how the government will administer the in-work payments, which will have to tally hours worked per week' (Larson, 2004).

Just like Family Support, the IWP can also be received in full by each parent in a split or shared custody situation providing each is care-giving for at least one third of the week and neither is on a benefit.

The work test: discrimination against sole parents?

The IWP makes it easier for one parent to stay at home where there is a full-time breadwinner, while implying that sole parents should work at least 20 hours a week.

Ironically the IWP makes it easier for one parent to stay home where there is a full-time breadwinner, while essentially implying that a sole parent should work at least 20 hours a week, no matter what their children's needs or how many children they have. The purpose is not obviously an incentive to be in paid work, as the partnered mother at home can receive it. In contrast to the Child Tax Credit, the IWP has the extra dimension that a given quantity of work has to take place, presumably to demonstrate independence from the state.

The 20 hours work test is especially harsh - arguably even discriminatory - for sole parents. A two-parent family can have one parent full-time caregiving at home while the other works just 30 hours. Thus out of a working week of 40 hours, this family has 50 hours of care giving and 30 hours of work. The sole parent has only 20 hours of caregiving and 20 hours of work. The work test is not related to the numbers or ages of children either, but a sole parent with three young children is likely to find it far more complicated and even inappropriate to work than a sole parent would with one child.

Families in financial poverty often suffer the double disadvantage of being time poor too – especially sole parent families, where the one parent available arguably needs to do the caring work of two. Here, wider shifts in social expectations weigh especially heavily on sole parents. Our society has gone from expecting women to stay at home with their young children, to then ostensibly giving parents the choice to stay at home or to work, to finally now expecting nearly all parents to work, and care for children as well. This is hard enough with two parents working and caring. For low income solo parent families with young children, this makes a difficult situation nearly impossible. Overworked, stressed and tired simply through trying to ensure the family's financial survival, solo parents lack the time to give their children optimum attention and nurturing, let alone look after their own emotional needs.

> *One single mother whose children attend a local school rises at 5am and gets her children up to have breakfast with her. This is when she can help them with their homework and talk about their day before she goes to her second job at 6am. Her young adolescent children are tired and reluctant - but this is the best she can do. Working in a factory doesn't provide enough for her to support her family. Over-employment is her only option.*

Therese Ireland, Auckland educator

The IWP can be increased every three years by regulation (an order in council). The danger is that when future governments desire to redistribute to families, they might prefer to do so by adjusting this payment in this way, rather than increasing Family Support which goes to all low income families. This would again reinforce the discrimination against those who cannot receive the IWP (Ministry of Social Development, 2002-2004).

Because the IWP can be increased by regulation, there is a danger that future governments may increase family assistance this way, rather than via Family Support, which goes to all poor families.

In contrast to when the CTC was introduced, the companion policies for the IWP have ensured that on paper, at least, the inflation catch-up for Family Support has been made this time. But, as shown above, the children in families on benefits have a significant portion of their increased Family Support swallowed up in core benefit reduction, lower Accommodation Supplement, and less Special Benefit.

It would have been much more child-poverty focused and far simpler to just add the CTC onto Family Support so that all low income children got it, while addressing incentive issues in other ways. Instead, excuses are made that the long delay in the package implementation is due to 'administrative complexity' and the need to promote the exercise with an expensive media campaign.

What does the In Work Payment cost?

The fiscal cost of the IWP when fully implemented is $350 million as shown in table 11.

Table 11: Cost of family assistance changes ($ million)

	2003/04	2004/05	2005/06	2006/07	2007/08 and Outyears
Vote revenue					
Benefits and other unrequited expenses:					
Family Support Tax Credit	-	108.000	520.920	677.860	888.620
Family Tax Credit	-	-	1.250	6.536	6.527
Parental Tax Credit	-	0.400	2.200	4.000	4.900
Child Tax Credit	-	6.000	2.000	(98.000)	(122.000)
In-Work Payment	-	-	56.300	288.276	349.346
Sub-total Operating	-	**114.400**	**582.670**	**878.672**	**1,127.433**

Source: MSD 2002-04, May05

We think there are much better ways to spend $350 million dollars. If the IWP and the CTC it replaces were to be abandoned in 2006, the $350m saved could used in a combination of the following:

- further improve the levels of Family Support
- reduce the rate of abatement of Family Support to enhance work incentives
- increase the threshold for Family Support
- improve core benefits
- reduce the impact on children of the changes to the Special Benefit
- provide for a semi-universal child payment component within Family Support for all children, such as is done in Australia

7. Lessons from other countries: UK and Australia

New Zealand has been described as "laggard" in family assistance; compared to the UK and Australia we are indeed well out of step.

New Zealand has been described as a "laggard" in family assistance compared to other OECD countries (Bradshaw, Finch, & Eardley, 2003). Compared to similar countries such as the UK and Australia we are indeed well out of step. In both those countries per-child weekly payments are the same for all children, regardless of the source of their parents' low income, just as they were in New Zealand before 1996.[4] Both countries have a more generous and less targeted approach and both regularly adjust their payments for inflation. In both countries there is a significant universal component to their family assistance. In the case of Australia the quasi-universal A$21 a week per child is eventually reduced, but only for those on very high incomes In the UK meanwhile the child benefit is received at all income levels and is £16 (NZ $42) per week for the first child, and £10.75 (NZ $28) for subsequent children.

Australia

There are a number of features of the Australian system that make it far simpler, more generous and humane than ours. One critical feature is that all aspects have been regularly adjusted for inflation. But that is just the start.

Australian family assistance has a quasi-universal component, is inflation adjusted, doesn't abate until a much higher income level than in New Zealand and increases are backdated.

The 2004 Australian Budget had some astonishing increases for families, admittedly fuelled by election year generosity, and an extraordinarily robust economy. In contrast to New Zealand's drip-fed introduction of Working for Families, some of these payments were retrospective as well as for the current financial year. For example, a lump sum bonus of $600 per child was paid for the past year 2003/4. This can be offset against repayments for families whose incomes have risen. This will be an ongoing payment that will be adjusted for inflation in July each year so that families also get another $613 at the end of the current year as detailed below. In contrast, it has been argued that New Zealand's much slower introduction was because the bureaucracy couldn't manage faster implementation. The complexity has been used as the reason for the delay, along with the need for an expensive media 'education' programme.

The Australian system also begins to abate at a much higher income level, meaning families can earn more. There are two types of family tax benefits. The maximum amount of Australian Family Tax Benefit A does not begin to reduce until parents have an income of A$32,485. In New Zealand, Family Support starts reducing at an income level of $20,000 until 2006, when the level will rise to $27,500. Moreover, not only does abatement start at a much higher level in Australia, but the rate of reduction from 2004 is only 20 cents for every dollar of income received over the threshold until a base weekly amount is left.

[4] There is a working tax credit in the UK but it is not confined to families, and most countries subsidise the costs of child care for those who are working. For a full discussion of family tax credits in different countries (see Nolan, 2004).

Table 12: The maximum amount of Family Tax Benefit A (Australia)

For each child	Australian $ (weekly)
Under 13 years	$78.76
13-15 years	$96.73
16-17 years	$33.33
18-24 years	$40.77

Source: Family Assistance Office (Australia)

Note: These figures include the $613.20 per child supplement for 2004/05 which is to be paid in a lump sum at the end of the year. The $600 supplement for 2003/4, announced in the 2004 Budget, is not included.
The Australian dollar figures have not been converted to $NZ dollars as the rate is very close to parity at the time of writing this report (A$1 = NZ$0.945).

The Australian Family Tax Benefit A stops reducing once it has fallen to A$21.49 per child under 18 per week and A$28.91 for a dependent child aged 18-24. It does not reduce further until parents have a joint income of A$84,023 a year for a one-child family, when the reduction rate rises to 30 cents for every dollar received over the threshold. There is also a generous increase in this threshold, of A$3385 for each additional child. All but the top six percent of children get this quasi-universal payment. In contrast, Family Support in New Zealand will reduce 30 cents for every income dollar received over $27,500, no matter how many children there are in the family, and there is no universal component at all.

In addition to the quasi-universal Family Tax Benefit A, there is another innovative package which gives extra help to single income families, including sole parents.

In addition there is another innovative package in Australia, called the Family Tax Benefit B which gives extra help on top of the Family Tax Benefit A to single income families, including sole parents. It is a much better approach than the idea of income splitting which was discussed in chapter 5.

For a family which includes a child under the age of five, the Family Tax Benefit B is up to A$57 a week assistance. When the youngest child is aged between 5 and 18, the maximum is A$39.97 per week per family. For sole parents that maximum is paid in full, regardless of income. In two parent families, the primary earner's income is not taken into account. The secondary earner, usually the mother, starts to lose the tax benefit when her income exceeds A$4000. The family still gets some Family Tax Benefit Part B if her income is below A$18,947 a year if the youngest child is under five; or A$14,421 a year if the youngest child is between five and 18.

Table 13: Maximum rates of Family Tax Benefit Part B (Australia)

Age of youngest child	Per week	Per year
Under 5 years	$57.33	$2,989.35
5-15 years (or 16-18 years if a full-time student)	$39.97	$2,084.15

Source: Family Assistance Office (Australia)

There is nothing as far-sighted as this in the New Zealand system, where all assistance is tested against joint parental income, and sole parents with any benefit income at all do not qualify for the Child Tax Credit. In Australia the source of parental income does not determine any of the tax benefits for children. There, in contrast to New Zealand's system, the child's rights and wellbeing appear to be being treated as important in their own right.

Given all the advantages of the Australian system, it is disturbing to note that in the development of the New Zealand Working for Families package as outlined in the Cabinet papers, the Australian approach does not appear to have been considered seriously (Ministry of Social Development, 2002-2004).

Given the advantages of the Australian system, it is disturbing to note it does not appear to have been considered seriously in the development of Working for Families.

United Kingdom

In his 1998 Budget speech, Chancellor of the Exchequer Gordon Brown said:

> *Giving a child the best start in life takes more than money, but it cannot be done without money. And I believe that the child benefit remains the fairest, the most efficient, and the most cost-effective way of recognising the extra costs and responsibilities borne by all parents. And raising it allows us to do more for mothers who choose to be at home, working at home to bring up children*

(Brown, 1998)

Not just in rhetoric (though there is plenty of that!), the child has remained a core policy focus for the Blair government.

> *Since 1997, the Government has placed welfare reform at the heart of its strategy for promoting fairness and inclusion. A modern welfare state is the means to ensure that everyone in society has an equal chance to share in rising national prosperity… Tackling childhood disadvantage is particularly important because childhood experience lays the foundations for later life. Children growing up in low-income households are more likely than others to… have poor health, perform badly at school, experience unemployment as adults or earn lower wages. The Government is therefore committed to halving child poverty by 2010 and abolishing it within a generation*

(HM Treasury, 2002).

In 2003, the UK system of family assistance was rationalised to provide a single seamless payment for low income children, regardless of the source of parental income, in the form of a Child Tax Credit. The universal Child Benefit also remains, as a more than token recognition of the importance of child wellbeing.

UK Child Benefit

The UK Child Benefit is universal, providing a secure payment should a family separate or have fluctuating income.

The UK Child Benefit is a universal payment, like New Zealand's old Family Benefit, paid to all families with children, regardless of income. The Child Benefit is approximately £16 per week for the first child, and £10.75 for each subsequent child. The contrast to New Zealand can be easily seen. In New Zealand, a family with three children under 13 on the average household income of around $45,000 gets no assistance at all from the state on account of their children, and even loses access to the health care subsidies provided by the Community Services Card. In Britain, a family on the average household income gets free visits to the doctor, free prescriptions and £36 per week (about $NZ95) in universal Child Benefit.

The UK CPAG has strenuously argued that there are innumerable benefits associated with having a universal payment for all children. These include:

- a secure source of income that stays with the caregiver of the child at times of family breakdown
- certainty of payment, as the amount does not reduce with earned income
- control of this amount by the caregiver, reducing problems brought about by lack

of sharing of family income

- very high take-up rates, in contrast to income-tested measures
- the facility to maintain a national register of all children
- the possibility of capitalisation in order to provide a deposit for a first home
- structural and administration simplicity
- eliminating the stigma associated with targeted state assistance

While the British government has indicated that it would like to tax the universal benefit for children, so far this has not happened. CPAG (United Kingdom) have mounted compelling arguments for leaving it untaxed, and it is likely to remain so (see www.cpag.org.uk/).

UK Child Tax Credit

On top of the universal child benefit, there are separate and distinct targeted payments related to child poverty and employment - the UK Child Tax Credit and the UK Working Tax Credit. The UK Child Tax Credit is very different from New Zealand's. It treats all children the same and does not differentiate on the work status of parents. There is common framework for assessment, so that all families are part of the same system, and poorer families do not feel any stigma. The Child Tax Credit maximum is £10.43 (NZ$27.50) per week per family, plus another £31.25 (NZ$82) a week for every child. There is an additional family element where there is a child aged under one, as table 14 shows. The tax credit is paid to the caregiver, regardless of work status: it thus clearly focuses on child poverty issues, and avoids mixing them in with working issues. The Child Tax Credit is also paid at a higher rate if the child has a disability, and at an enhanced rate for a child with a severe disability.

The United Kingdom provides distinct targeted payments related to child poverty and, separately, to employment.

For those entitled to the Child Tax Credit, the full amount is received up to an income of £13,480 (NZ$35,500) and reduced at 37% beyond that. The family element of the Child Tax Credit is reduced at the rate of 6.7% on incomes over £50,000 (NZ$131,600), or £66,000 (NZ$169,000) a year if there is at least one child who is less than a year old.

Table 14: Maximum rates of UK Child Tax Credit 2004

Element of Child Tax Credit	**Maximum weekly entitlement from 6 April 2004**.
Family element	£10.43
Higher family element (if family contains child under one)	£10.43 (additional)
Child element:	
For each child	£31.25
For each disabled child	£41.23
For each severely disabled child	£16.59 (additional)

Source*: *UK Inland Revenue

Comparisons between countries are always difficult as the systems are so different (Nolan 2004). One confusion is that New Zealand provides a separate disability allowance for disabled children that is not part of the family assistance package. In New Zealand, a Child Disability Allowance can be paid to the principal caregiver of a dependent child who needs extra care because of a physical or mental disability.

There is no income test. The rate is $36.30 a week. In addition the parent may get a Disability Allowance up to a maximum of $48.18 a week to meet additional actual costs due to the child's disability. This last is only paid when income is below approximately $35,000 for a couple, and $30,000 for a sole parent.

The UK Working Tax Credit: Making work pay

The United Kingdom's parallel to the In Work Payment is a substantial working tax credit (WTC). It differs significantly, however, from the IWP in that it is adult focussed, and not paid to the caregiver of the children.

The UK Working Tax Credit differs from NZ's In Work Payment in that it is paid to all adults who work 30 hours or more (not just those with children), and it is paid to workers, not to caregivers of children.

The UK WTC is for all adults who spend at least 30 hours a week in the workforce. In the case of those with children, the minimum hours requirement is only 16, but if they're working 30 hours or above, they're entitled to an additional payout. The Working Tax Credit has a basic adult element of £30.10 (NZ$77), a lone parent element of an extra £29.71 (NZ$78), and a premium, when hours exceed 30 a week in a family with children, of £12.30 (NZ$32). The Working Tax Credit is received by the person working, and is not automatically paid to the caregiver.

In the UK, there is an add-on to the Working Tax Credit to meet the costs of childcare which is paid directly to the caregiver. The childcare element of the Working Tax Credit will pay up to 70% of eligible childcare costs up to a maximum of £94.50 (70% of £135) per week for one child, and £140 (70% of £200) per week for two or more children. As noted above, comparisons with New Zealand are difficult. For example, childcare subsidies are not paid through any tax credit in New Zealand but are applied for by parents as a separate subsidy (see page 48 for more details).

The UK Working Tax Credit is clearly separate from the payments for children. It is received in full when family income is under £5060 and then it is withdrawn at the rate of 37% for increases in income. Thus it is clearly aimed at the transition to work, and separate from child payments.

The UK Child Tax Credit is specifically for *children*, and this makes it easier to sell to an electorate which sees the point of reducing child poverty.

Beyond the technical advantages, we think the United Kingdom's combination of the Child Tax Credit and Child Benefit has significant advantages, both in the political aspects of the policy and in delivering a universal benefit not subject to difficult uptake and stigma issues. Simply, it is made clear that the UK Child Tax Credit is something specifically for *children*, and this makes it easier to sell to an electorate which sees the point of reducing child poverty (Sinfield, 2004), even if it has reservations about giving more money to out-of-work beneficiaries. In other words, the UK model appropriately puts children's needs ahead of other concerns.

Sadly in New Zealand's case, we lost the universal family benefit 13 years ago and since 1996 have used the term Child Tax Credit for precisely the opposite purposes to those of the United Kingdom. The NZ Child Tax Credit penalises children in families dependent on benefits, and is used to reward those in work rather than specifically to address child poverty. Now, the Child Tax Credit will be replaced with a far more accurately named In Work Payment, and reviving the use of the CTC name for something more akin to the UK Child Tax Credit would be potentially confusing.

8. What can be done? Discussion and conclusions

I have been working in General Practice in a poor Maori community for over 12 years now. In that time I have seen the same children returning with the same poverty related conditions – repeated chest infections, skin sores, stomach bugs, infectious diseases, depression. We treat the children and they return. I have seen no improvement over that time. We are stuck in a cycle that we cannot break out of. No child should have to go to hospital repeatedly with recurrent skin infections or pneumonia. It is very demoralising in general practice when we can see no improvement, only stories of overloaded hospitals. Too many reports, and no action to date.

Dr Nikki Turner

A number of recommendations are summarised at the start of this document. This section discusses each of these:

Make child poverty elimination a stand alone policy, with its own goals and targets.

- Government needs to make eliminating child poverty a much more explicit, even leading, goal with its own specific policy aimed at making substantive redress to child poverty regardless of the source of families' income.
- In particular, it must produce a much more plausible policy for lifting the most marginal children out of poverty, and not just those whose parents are in work. Addressing child poverty, and providing security and the best possible start for New Zealand's children is a worthy policy goal in its own right for any government. It's too important - or rather, these children are too important - to be relegated to a subordinated position behind employment policy, or to be risked by engaging in dangerously compromising employment policy tradeoffs. Without investment to eliminate child poverty, New Zealand's future economic and social well-being is threatened.
- Clear goals and targets for reducing child poverty and finally eliminating it are required. CPAG suggests that by 2007 the numbers living in poverty should be halved and that child poverty should be eliminated by 2015. Measures of child poverty should include not just bald number counts of children below a particular poverty line, but a range of markers of poverty such as foodbank use. These should be included in the indicators of social well being in the Social Report. Other measures to increase engagement and accountability around child poverty outcomes should also be considered (see below).
- As part of this stand alone policy, the government needs to raise the profile of child poverty, and increase the accountability measures around it, by including child poverty measures in the Social Report, in the contracts of Departmental CEOs, and ultimately in the statutory 'wellbeing mandates' and 'community outcomes' planning processes of local territorial authorities like councils and District Health Boards. At present, local partnerships are struggling to address child poverty issues, in the absence of a specific, and funded, mandate to focus in this area (see Craig and Courtney forthcoming).

The UK's Child Tax Credit shows it is possible to have explicitly child-focussed policy which is politically defensible and makes real inroads into child poverty, while still making work pay through working tax credits available to all low income workers. This avoids the explicit discriminations in New Zealand's In Work Payment.

A policy directly aimed at reducing child poverty would create wider spin-offs. It creates a wider opportunity to shift the focus of New Zealand's welfare state towards a stronger focus on basic **security** for vulnerable New Zealanders, and towards **investment** in marginal groups as a way of preparing them for full participation in New Zealand's society.

In the current jobs and growth scenario, the time (for once) is perhaps ripe for letting child poverty policy drive employment policy. If low wages mean there is limited scope to combat child poverty, and, as at present increasing the minimum wage is unlikely to generate much unemployment, then why not use child poverty as a reason to increase the incomes of all marginal New Zealanders? Wages in New Zealand *should* increase under current economic conditions, helping to make work pay in the most direct way. Increasing the minimum wage may be a way to make it happen (although the issues surrounding this have not been canvassed in this report).

Given that children are much more likely to be in poverty than the elderly, child poverty needs to receive at least the level of policy focus given to retirement income. Discrimination against old people on the basis of their workforce participation is unthinkable: why should it apply to children? Every superannuitant is rightly and effectively given a basic, realistic income floor, at least enough to ensure they are not in poverty. Children should receive the same treatment.

Every superannuitant is rightly given a basic, realistic income floor – why can't we do the same for children?

Bring the package forward.

- In the short run, the Family Support increase scheduled for April 2005 should be brought forward, at least in part, so that children in all families gain some immediate benefit. This payment should be backdated to apply from 1 April 2004.

It is disappointing that there is nothing in the 2004 Budget for poor children until 1 April 2005. It is hard to understand a budget that identifies a serious problem and then denies any immediate relief for the current budget year. This goes against both long established wisdom, and current policy statements:

> *There is increasing evidence that the negative effects of poverty on children particularly younger children, intensify the longer a family is poor.*

(Ministry of Social Development, 2002-2004)

This report has shown that the changes signalled in the 2004 Budget represent a significant real redistribution to working families. The picture for those who fail to qualify for the new IWP is much less impressive. While these families appear to have their Family Support restored to the 1986 position, the offsets to the core benefits, and Special Benefit leave these families still worse off than in 1986. There is no compensation for the lost income since 1996 when these families were denied the CTC, which in turn was part of the inflation catch-up in Family Support. It should be also remembered that the core benefits themselves were cut drastically in 1991 and the 'Working for Families' package does not include a restoration to their real level as in 1991.

The effects of the 2004 Budget package are going to be slow to impact on child poverty, because the real redistribution to the poorest that was required is not going to happen. Inflation adjustment of Family Support via links to the Consumer Price Index from 2008 is welcome but real wage growth will still leave poor children behind in times of strong economic growth. Significant and sustained real redistribution is required. In times of poor economic performance - and those times will come again - the loss of the IWP will have a severe impact on the well-being of children in low income families who lose jobs.

It is still possible to revamp the package to improve outcomes for poor children, especially in the short term. The equivalent of the CTC, i.e. $15 per child per week, could be paid immediately to those low income families who currently do not get it for the full year 2004/5. Ideally, the CTC and the IWP that replaces it would be abandoned at the same time. Failing that, an immediate increase in Family Support of at least $15 per child should be made.

Revisit the In Work Payment, overall and in detail.

- The principle that all children should be treated the same should be reinstated. This requires that the In Work Payment, which is both discriminatory and perpetrates income inequalities, be abandoned. The money saved should be used to further improve Family Support.
- An approach to providing suitable work incentives such as Australia's, which does not discriminate against poor children, should be investigated.

Again, the major focus of the 2004 New Zealand Budget on the virtues of work incentives, rather than on alleviating child poverty, must be challenged. The In Work Payment has many undesirable features. It drives a large wedge in family assistance between families in work and those on benefits. While it is no longer closely tied to the number of children, it is related to children and the presence of children is a condition of its receipt. Like Family Support, it is paid to the caregiver, but only to those who qualify. It abates with the Family Support package and is clearly seen to be a part of it. It will be hard to administer and complex for low income families to comply with (especially those already stretched by the hard, unacknowledged work of raising children). With the loss of jobs in the next recession it could result in a sharp drop in living standards for children whose parents need to access a main benefit. Over time, the danger is that real increases in the level of the IWP could be achieved at the expense of real increases in Family Support, and the focus on reducing child poverty lost altogether.

The alternative path, of more generous Family Support, more immediate payments, a lower abatement rate, lower taxes on low incomes, improvements to the student loan scheme repayments and improvements to the minimum wage, is at least worthy of consideration. Such a path may have been chosen if the goal of eliminating child poverty was prioritised over the goal of removing families from the welfare rolls. As both Britain and Australia have shown, improved work incentives can be achieved while still treating all children in low income families with equal generosity.

Undo some of the clawbacks and adverse impacts.

- The reduction of Special Benefit by including Family Support as income in entitlement calculations should be abandoned, as it will all but undo the good the increase in Family Support would otherwise bring. The new Temporary Additional Support that replaces the Special Benefit in 2006 should be reviewed and all adverse income impacts on children reversed.
- Increased real redistribution to significantly improve the position of the poorest children in families on benefits is urgently required. The child-related part of core benefits and student allowances should remain attached to the core benefit for parents, rather than being abolished.

With these two alterations, the package would be made much more effective in targeting child poverty, especially among the poorest families.

Focus wider policy around child poverty goals.

- A concerted effort must be made to reduce the damaging influence of all factors which increase child poverty, and to enable groups and agencies to work together on bigger picture issues. For example, action is required to:
  - enable access to appropriate and affordable housing
  - reverse the growth of unmanageable debt
  - limit the growth of gambling opportunities
  - ensure full access to free healthcare and disability services for all children under 18 years of age
  - ensure access and adequate funding for well child services
  - increase the resources (especially teachers) of schools in poor areas

We have the best possibility for decades to address child poverty. Working for Families is a step in that direction, but it delivers scandalously little to many of our poorest children.

Eliminating child poverty, when raised to a standalone policy goal, can provide crucial leverage and focus for other important social policy in the areas of housing, debt and credit, gambling, health and education. It can provide powerful rationales, and practical programmes of action for local partnerships and interagency strategy, and justify the kinds of funding these need to really make an impact. Subordinating child poverty to employment loses this opportunity to make eliminating child poverty into a substantive policy area, with measurable outcomes.

The current situation in New Zealand offers the best possibilities for decades to really address child poverty. The Working for Families policy is a step in that direction: for many families, it will make a substantive difference. But for many of our poorest families, and our poorest children, Working for Families delivers scandalously little. By narrowly targeting to working families, the package has been made to appear very generous indeed. Again, this appearance of generosity has come at the expense of our poorest children.

Appendix 1: Changes to real family assistance for particular families relative to total average weekly earnings 1986 – 2008

(see pages 43 - 44 for analysis)

Table i: One-child family on 0.75AWE* (under 13)

	Oct 1986	**Year ended March 1994**	**Year ended March 1999**	**Year ended March 2004**	**Year ended March 2005**	**Year ended March 2006**	**Year ended March 2007**	**Year ended March 2008**	**1986-2008 % change**
Average Consumer Price Index June99 quarter = 1000	625	910	1003	1107	1134*	1163*	1192*	1222*	95.5%
Maximum nominal value of assistance Includes Family Benefit ($ per week)	42	42	47	47	47	72	72	82	95.2%
Maximum value of FS in $2004	74.4	51	52	47	**46**	**66**	**67**	**74.3**	**0**
Average total weekly earnings ($)	412	587	670	758	780**	804**	828**	853	107%
Income threshold for abatement	14 000	17 500	20000	20 000	20 000	20 000	27 500	27 500	96%
Annual income for low income family ($)	16 070	22 877	26 130	29 562	30 420	31 356	32 292	33 267	
Family's weekly nom Family Support ($)	35	23.4	25.7	8	0	22.6	42	48.7	
Family Assistance in ($)2004	62	28.5	28.5	8	**0**	**21.5**	**38.8**	**44**	-29%
Including the CTC and IWP $ 2004	62	28.5	45.0	23	**17.6**	**35.8**	**94.7**	**98.5**	**59%**

AWE = total average weekly earnings (Stats NZ)

*CPI projected to increase 2.5% pa ** AWE projected to increase 3% pa

Table ii: One-child family on AWE* (under 13)

	Oct 1986	Year ended March 1994	Year ended March 1999	Year ended March 2004	Year ended March 2005	Year ended March 2006	Year ended March 2007	Year ended March 2008	1986-2008 % change
Average consumer price index June99 quarter = 1000	625	910	1003	1107	1134*	1163*	1192*	1222*	95.5%
Maximum nominal value of assistance Includes Family Benefit ($ per week)	42	42	47	47	47	72	72	82	95.2%
Maximum value of FS in $2004	74.4	51	52	47	**46**	**66**	**67**	**74.3**	**0**
Average total weekly earnings ($)	412	587	670	758	780**	804**	828**	853	107%
Ist Income abatement threshold (18%)	14 000	17 500	20000	20 000	20 000	20 000	27 500	27 500	96%
2nd threshold (30%)		27,000	27,000	27,000	27,000	27,000			
Annual income ($)	21,424	30,524	34,840	39,416	40,560	41,808	43,056	44,356	
Family's weekly nom Family Support ($)	16.3	0	0	0	0	0	0	0	
Family Assistance in ($)2004	28.9	0	0	0	**0**	**0**	**0**	**0**	
With CTC and IWP $ 2004	28.9	0	0	0	**0**	**0**	**39.2**	**40.6**	**40.4%**

AWE = total average weekly earnings (Stats NZ)

*CPI projected to increase 2.5% pa

** AWE projected to increase 3% pa

Table iii: Two-child family on AWE* (under 13)

	Oct 1986	Year ended March 1994	Year ended March 1999	Year ended March 2004	Year ended March 2005	Year ended March 2006	Year ended March 2007	Year ended March 2008	1986-2008 % change
Average consumer price index June99 quarter = 1000	625	910	1003	1107	1134*	1163*	1192*	1222*	95.5%
Maximum nominal value of assistance Includes Family Benefit ($ per week)	64	64	79	79	79	119	119	139	117.2%
Maximum value of FS in $2004	113.4	77.9	87.2	79	**77.1**	**113.3**	**110.5**	**125.9**	**11%**
Average total weekly earnings ($)	412	587	670	758	780**	804**	828**	853	107%
Ist Income abatement threshold (18%)	14 000	17 500	20000	20 000	20 000	20 000	27 500	27 500	96%
2nd threshold (30%)		27,000	27,000	27,000	27,000	27,000			
Annual income ($)	21,424	30,524	34,840	39,416	40,560	41,808	43,056	44,356	
Family's weekly nom Family Support ($)	38.3	19.4	9.5	0	0	9.3	29.3	41.8	
With CTC and IWP $ 2004	67.8	23.6	27	13	**6.5**	**38.5**	**89.3**	**92.2**	**35.9%**

AWE = total average weekly earnings (Stats NZ)

*CPI projected to increase 2.5% pa

** AWE projected to increase 3% pa

Table iv: Three-child family on AWE* (under 13)

	Oct 1986	Year ended March 1994	Year ended March 1999	Year ended March 2004	Year ended March 2005	Year ended March 2006	Year ended March 2007	Year ended March 2008	1986-2008 % change
Average consumer price index June99 quarter = 1000	625	910	1003	1107	1134*	1163*	1192*	1222*	95.5%
Maximum nominal value of assistance Includes Family Benefit ($ per week)	86	86	111	111	111	166	166	196	%
Maximum value of FS in $2004	152.3	104.6	122.5	111	**108.4**	**158**	**148.6**	**177.6**	**16.6%**
Average total weekly earnings ($)	412	587	670	758	780**	804**	828**	853	107%
Ist Income abatement threshold (18%)	14 000	17 500	20000	20 000	20 000	20 000	27 500	27 500	96%
2nd threshold (30%)		27,000	27,000	27,000	27,000	27,000			
Annual income ($)	21,424	30,524	34,840	39,416	40,560	41,808	43,056	44,356	
Family's weekly nom Family Support ($)	60.3	41.4	41.5	15	7.6	56	76	95.9	
With CTC and IWP $ 2004	106.8	50.4	95	60.2	**51.3**	**98**	**126.5**	**141.2**	**32%**

AWE = total average weekly earnings (Stats NZ)

*CPI projected to increase 2.5% pa

** AWE projected to increase 3% pa

Appendix 2: Working for Families and poverty line analysis

In the 2004 Budget the government claimed that the Working for Families package would substantially reduce child poverty.

> *Using a poverty value measure of 60 per cent of median household income there is expected to be a 30 per cent reduction in child poverty by 2007/08. Using a 50 per cent measure, the expected reduction is 70 per cent.*
>
> (Cullen, 2004, Budget Speech).

The justification for this claim is set out in a highly technical account by Perry (2004). It is the intention of CPAG to commission further work on this critical issue as it is not possible in the confines of this report to do justice to the complexities and questions raised by this analysis. But we think a few observations are in order.

First, table v sets out the various measures of the poverty line that have been considered in the New Zealand context. International comparisons require yet other measures as discussed in Perry (2004).

Table v: Various poverty line measures

Poverty line	Used by	% of children in poverty now	% in poverty after 1st phase 2005/6 (% reduction)	% in poverty after 2nd phase 2007/8 (% reduction)
60% of **Economic Family Unit** equivalised median disposable family income **after** housing costs	MSD	29%	Not estimated - data not available	Not estimated – data not available
60% of equivalised median **household** disposable income **before** housing costs	WFF	29.0%	24.2% (16%)*	20.5% (29%)*
50% of equivalised median household disposable income **before** housing costs	WFF	14.7%	9.3% (36.7%)*	4.3% (71%)*

*reductions estimated by Perry (2004)
WFF – Working for Families

Table vi shows what the 60% (bottom line) and 50% (top line) equivalised median household disposable income before housing costs is worth in $2005 dollars for families of different sizes.

Table vi: Conversion of two poverty lines to actual dollars for selected family types

Equivalised Income	**Annual net income for families and households of various types in 2005 dollars**								
Family type*	**(1,0)**	**(1,1)**	**(1,2)**	**(1,3)**	**(2,0)**	**(2,1)**	**(2,2)**	**(2,3)**	**(2,4)**
	10,750	15,050	18,850	22,150	16,550	20,000	23,300	26,150	28,950
	12,900	18,050	22,600	26,600	19,850	24,000	28,000	31,350	34,750

*Family composition is indicated by (number of adults, number of children) eg a sole parent with one child is (1,1)

Source: Table 2 Perry (2004, p33)

We cannot evaluate the arguments for and against use of any particular poverty line here, except to note that housing costs are important, and an after housing costs line would seem to give a better picture of what is going on, as housing has become significantly more expensive over the last two decades (Johnson, 2003). The data was not available for the after-housing costs poverty line used in the Perry analysis, and this will have to await future surveys of household incomes.

Thus the analysis conducted by Perry is **before** housing costs and is not comparable to the poverty line used by the Ministry of Social Development in its social reports. (As well as treating housing costs differently, there are other differences in the lines because they use different income sharing units: "Economic Family Units" and "households" respectively – see glossary.) It is interesting however that MSD's 60% **after** housing costs line and Perry's 60% **before** housing costs line both show 29% of dependent children are in poverty before the reforms.

We consider then that if the prediction of a 30% reduction in child poverty by 2007/8 can be made on Perry's 60% household before housing costs poverty line it might be applied also to the MSD's 60% after housing costs poverty line. This would leave 20.5% of children under this poverty line by 2007/8, or just over 200,000 dependent children based on the numbers in table 3, p20. However Perry's paper shows that the 50% before housing costs line is close in dollar terms to MSD's 60% ***before*** housing costs line. Hence it is likely to be argued, if the after-housing costs ratios are similar, that it would be more appropriate to apply the 70% reduction, not 30%, to the 60% after housing costs economic family unit line.

This arcane debate aside, the Perry analysis deserves closer scrutiny. The 70% reduction at the 50% before housing costs poverty line has been cited as 'a very significant reduction by any standard' and that it is the result of the substantial targeting to poor children in the Working for Families package (Perry, p50).

Figures 3 and 5 reproduced from Perry (2004) below show the impact of the two phases of the final package, on the distribution of equivalised household disposable income before housing costs, by 2007/8.

The first thing to note is that there is a blip or concentration of families currently receiving around equivalised $11,000 a year before housing costs, (see table vi for the dollar income this represents for families of different sizes). This blip needs careful qualitative disaggregation, especially in terms of how many families in it are benefit dependent and how many are not, if the real impacts of Working for Families on these families is to be considered. Perry (2004) does not attempt to model the projected reduction in child poverty for those on benefits separately, even though MSD research has highlighted the greater poverty and vulnerability of these children (Krishnan 2002). This leaves the quantitative analysis underpinning the package open to criticism.

The blip makes the difference between a 50 and 60% poverty line one of huge (statistical and political) significance. Statistically, small shifts make very large differences; politically, the value of shifting attention to the 50% line is enormous (enabling, for example, the stunning 70% claim). It also serves to obscure the more potent fact that, based on either measure, there is a large number of New Zealand families, many or most of them benefit dependent, teetering on the edges, if not in outright poverty. For families in this zone who are benefit dependent, $10 or $20 a week might make a difference as to which side of a low poverty line they fall on, but it makes very little practical difference to their actual income situation.

Figure 3 Income Distribution for Families with Dependent Children Before and Immediately After Phase 1 of the Reforms

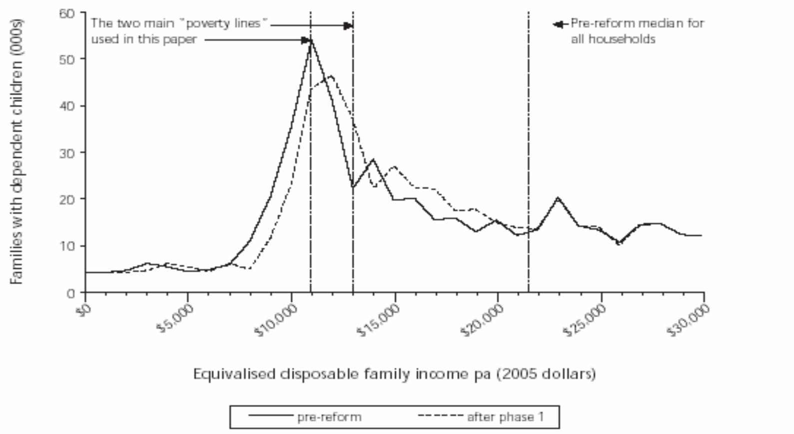
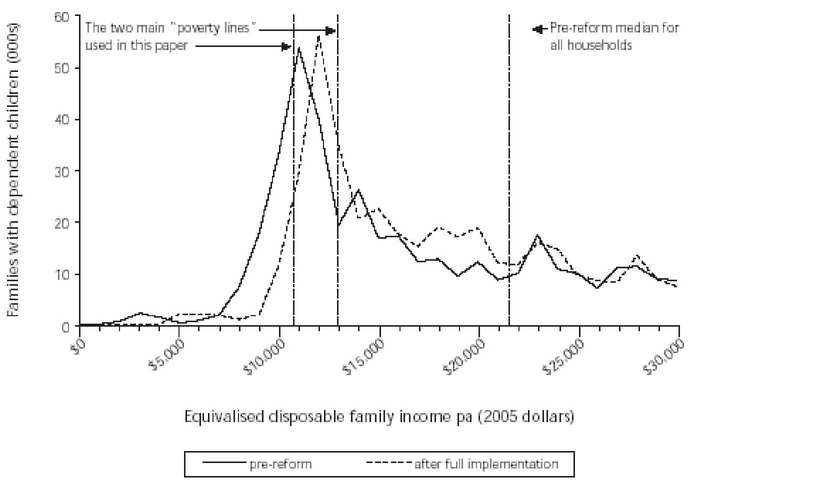


Figure 5 Income Distribution for Families with Dependent Children Before and After Full Implementation of the Reforms



(Many families with extremely low incomes in the distribution shown in the figures above, but many of these are self employed and may not be poor once full access to resources is taken into account.)

Figure 3 shows the small impact of the first phase. It is ultimately the final 2007 increase (typically of around $10 a week in Family Support) that might push many of these highly vulnerable families over the poverty line by a small amount (shown in figure 5). Between now and then, many of these poor families get little or nothing. Moreover, when they do move over the line, they might easily move.

The Perry analysis itself recognises that the choice of poverty line is somewhat arbitrary and the use of an income measure crude. There are also some fundamental assumptions made in Perry's modelling:

- 100% take-up is assumed
- while core benefit reductions have been included, Special Benefit changes are not factored in (these will remove $91m from the poorest families by 2007/8)
- childcare subsidies and Accommodation Supplement changes are excluded
- the analysis is before housing costs
- the state of the economy is assumed not to deteriorate

But let's try to bring it back to the realities of low income budgets. Remember Mary, sole parent with one child in the budget scenarios (Working for Families Fact Sheet 7) .She is going to come off the DPB and be better off in 2006 (see page 51 above).

Mary has a gross market income of $330 from working 30 hours a week at $11 an hour, a net $14,126 per annum. In 2006 when she comes off the DPB, to take her up to the minimum income guarantee of around $17,000, she gets a top-up of $57 a week through the Family Tax Credit (FTC). With her increased Family Support (FS) and IWP she gets a further $85 a week, confirming her $142 gains from FTC, IWP Family Support are as reported in the fact sheet.

A sole parent's 50% before housing costs poverty line with one child is $15,050 and for a 60% poverty line is $18050 (see table vi).

With FS and IWP, Mary will have a total of $6,864 to add to the FTC amount of $17,000. Thus her disposable income is now $23,864. She is lifted well above the 60% poverty line in the first phase.

In contrast, another sole parent, Celina, also has one child but her circumstances mean she cannot work, especially not 20 hours a week. Ignoring housing, her net DPB in 2004 is $235. With FS of $47, she has a net income of $14,664, just under the 50% poverty line. In 2005, she gains $25 in increased FS from the package. Now her net DPB + FS = $307 per week or $15,964 per annum. She is lifted just above the 50% poverty line for 2005 but of course is still well below the 60% figure. Celina is counted in the 70% poverty reduction figures, yet she is nearly $8000 a year worse off than Mary after the first phase.

In the second phase Mary gets another $7 FTC and $10 per week more in FS (Fact Sheet 7) and now has $24,748 per annum. Celina gets $10 per week more and with $16,484, is now above the 50% line, but still well below the 60% line. By 2007/8 she is counted as one of the 70% lifted out of poverty on the 50% line. (Note her DPB goes up with inflation as should the poverty line, ignored for simplicity here).

In another case study from the fact sheets (see pgs 9 and 46 above), Ann with two children and the DPB and FS gets $17,420 pre-reform. This puts her below both poverty lines of $18,859 and $22,600 for her family type. After the first phase of Working for Families her net income is $18,408, still below the 50% poverty line. After the second phase, she will get $19,448 which is above the 50% line. She now also counts in the 70% reduction figures by the end of the second phase.

Using a poverty line of 50%, the small changes to the benefit dependent family examples taken from the Working for Families fact sheets are sufficient to give the illusion of significant poverty reductions by 2007/8. It can be expected that almost the only ones who will be lifted above the more realistic 60% line are the 'in work' families, thus justifying the assertion made in this report that after Working for Families is fully phased in, at least 175,000 children will still be in poverty. Others above this line will be highly vulnerable to a return to poverty in the next economic downturn if their parents lose their jobs and therefore lose their in-work payments as well. It is this fundamental design flaw in Working for Families we have tried to highlight in this report.

Abbreviations and Glossary

ACC:	Accident Compensation Corporation also weekly accident compensation payments
AWE:	Average Weekly Earnings
CPAG:	Child Poverty Action Group (NZ or UK)
CPI:	Consumer Price Index
CTC NZ:	Child Tax Credit (New Zealand)
CTC UK:	Child Tax Credit (United Kingdom)
MTR :	Marginal Tax Rate
FTC:	Family Tax Credit
FA:	Family Assistance
DPB:	Domestic Purposes Benefit
EMTR:	Effective Marginal Tax Rate
IFTC:	Independent Family Tax Credit
IRD:	Inland Revenue Department:
IWP:	In Work Payment
MSD:	Ministry of Social Development, Te Manatu Whakahiato Ora.
OSCAR:	Out of School Care and Recreation
OECD:	Organisation for Economic Co-operation and Development.
TAS:	Temporary Additional Support
WINZ:	Work and Income New Zealand
WFF:	Working for Families package

Glossary

Abatement: the process of gradually reducing the amount of a government payment, as income increases. For example, an abatement of 20% means that for every extra dollar earned above a given income level (threshold) the payment will reduce by 20 cents. An abatement of 100% means that for each extra dollar earned the payment is reduced by a dollar.

Accommodation Supplement: payment to help both beneficiaries and non-beneficiaries on low incomes with housing costs. The amount of assistance depends on location, accommodation costs, the number of people in the household, cash assets and income.

Average Weekly Earnings: average total weekly income averaged for male and female (Statistics New Zealand).

Benefit: a weekly amount paid to individuals, couples or families by government; administered through Work and Income NZ (WINZ). Other financial assistance (eg Family Support, Family Tax Credit) is paid through the Inland Revenue Department’s tax system.

Bleeding out: see abatement.

Capitalisation: a stream of guaranteed future payments exchanged for a lump sum that may be used, for example, as a deposit for a home. The former Family Benefit was able to be used in this way.

Child: for most NZ government purposes: a person aged under 15 years or under 18 if dependent – ie, neither employed full time nor on a benefit (however in calculating entitlement to student allowances, a person is considered dependent on their parents until age 25).

Child component of benefits: the additional payment currently included in some benefit rates for beneficiaries with children. For example, the Unemployment Benefit rate for couples with children is currently $17.14 a week higher than the rate for a couple with no dependent children. This higher rate will stop in April 2005 when Family Support is increased.

Child Support: money paid by parents who are not living with their children, to either their children's caregiver or, if the caregiver is on the DPB, to Inland Revenue, to help financially support their children.

Child Tax Credit (NZ): a per child payment for low-and-middle income families with dependent children who are not receiving any benefit, New Zealand Superannuation, Student Allowances, or ACC for less than three months.

Child Tax Credit (UK): a child-related payment for all low-and-middle families with dependent children, regardless of the source of parental income.

Childcare Assistance: this term covers both the Childcare Subsidy for pre-school children and Out of School Care and Recreation (OSCAR) Subsidy for school-aged children.

Childcare Subsidy: for costs of childcare and early childhood education for preschool children.

Consumer Price Index: measures annual changes in the prices paid by consumers for goods and services.

Decile: one tenth of a given population. Income deciles, for example, rank tenths of a population by their income level. People in the top income decile are in thus in the top tenth (or 10%) of the population in terms of their income.

Deregulation: the removal of government-imposed controls, usually to allow for markets to operate freely. Deregulation was an especially popular process in the "neo-liberal" reforms of the late-eighties to early nineties and in many cases still exists today. For example, the proliferation of instant finance companies and pokie machines is due to a policy of widening operator access to the gambling and lending markets. Greater choice, efficiency and competitiveness in the marketplace are the touted aims of deregulation.

Disposable income: Income from all sources including benefits, after taxes have been deducted.

Domestic Purposes Benefit: a benefit paid to parents over 18 years of age who are caring for (a) child(ren) without the support of a partner.

Economic Family Unit: consists of an adult, a partner (if any) and/or dependent children (if any). A household may contain more than one economic family unit.

Effective marginal tax rate: the percent reduction in the last dollar earned due to the additive effects of paying tax and also losing a portion of a government benefit or other assistance, such as Family Support, through abatement. For example, someone who has an effective marginal tax rate of 80% only gets 20 cents in the hand for every dollar earned. For a more detailed example, see page 52.

Entitlement: something a person is eligible for or has a legal claim or right to.

Equivalised Disposable Income: after-tax income adjusted to reflect the numbers of people who share that income.

Equivalence scale: The proportions by which disposable income is adjusted to give equivalent income, eg a couple with four children need 1.69 times the income of a couple alone to have the same standard of living (using the Jesson scale).

Family Support: a per child payment to low-and-middle income families, whether in work or on benefit, to help with the costs of dependent children.

Family Tax Credit: a top-up payment to ensure non-beneficiary families working the required hours (20 hours for a single parent family, 30 hours for a two parent family) have a guaranteed minimum income ($14,872 net in 2004).

Fiscal responsibility: budgetary prudence; usually implies debt reduction over time and budget surpluses.

Hardship assistance: Hardship assistance is a general term referring to the supplementary assistance available to both beneficiaries and non-beneficiaries to alleviate financial hardship. It includes Special Benefit, Benefit Advances and Special Needs Grants.

Horizontal equity: equal treatment of those in equal economic positions (under tax law/policy for example).

Household: is either one person usually living alone or two or more people usually living together and sharing facilities (e.g., eating facilities, cooking facilities, bathroom and toilet facilities, a living area).

Household income: gross income from working, benefits and investments.

In Work Payment: a new payment from 1 April 2006 for low-and-middle income families with dependent children who are not receiving any benefit or Student Allowances and who are working a required number of hours. It is a per-family payment of $60 with an additional $15 per child for families of more than three children. It replaces the Child Tax Credit.

Income test: applies to extra income earned while on a benefit such as the Unemployment or Domestic Purposes Benefit. After $80 per week is earned the benefits start to abate.

Indexation: Process of annually adjusting a payment or an income threshold for inflation, so if the payment is $100 at the beginning of the year and inflation is 10%, if the payment is indexed it should become $110 at the beginning of the next year.

Independent Family Tax Credit: introduced in 1996 and later renamed the Child Tax Credit.

Inflation: the percentage rise in prices over the year as measured by changes in the Consumer Price Index. Any fixed payment will decline in purchasing power (won't buy as much in future) if it is not indexed.

Median: the middle point in a range of results, where there are as many people or items above as there are below.

Median real equivalent disposable household income: The mid point of the range of household income adjusted for family size, taxes and benefits, and inflation.

Net income: may refer to income after tax, or total disposable income.

Out of School Care and Recreation (OSCAR) Subsidy: a payment to low-and-middle income families in work, education or training to subsidise care for 5 – 13 year olds outside of school hours.

Parental Tax Credit: a payment to low-and-middle income parents for the first eight weeks after a baby is born. It is not available to parents who take Paid Parental Leave.

Poverty: for purposes of this report taken to be having insufficient income to participate fully in the life of the community and to develop one's potential.

Poverty line: the working definition for New Zealand, as used by the Ministry of Social Development, is taken to be 60% of the median, after housing costs, equivalised disposable family income. People whose income is below this amount are said to be in poverty.

Privatisation: the process whereby a state asset is sold into private ownership or control.

Progressive tax measure: one that is designed to take proportionately less from lower-income people.

Regressive tax measure: one that places a higher proportionate burden on the poor.

Special Benefit: a supplementary payment available on the grounds of financial hardship to both beneficiaries and non-beneficiaries who are unable to meet their essential commitments from their income and other resources. To be replaced by Temporary Additional Support from April 2006.

Targeted assistance: assistance granted only to people meeting selective economic eligibility criteria in contrast to universal assistance, which is granted to people at all income levels. Usually targeted systems are designed to include only middle or lower-income people.

Tax credit: general term for a payment that can be offset against tax or received as a cash payment.

Tax rebate: similar to a tax credit but where tax paid is less than the tax rebate it cannot be received as a cash sum.

Temporary Additional Support: a new benefit which replaces the more generous Special Benefit for new hardship applicants from 1 April 2006.

Threshold: the maximum income at which a government payment may be received in full. If a government payment recipient earns more than the threshold, the payment starts to abate.

Unemployment Benefit: a benefit paid to adults who are able to work but unable to find employment.

Vertical equity: fairness in the way in which the poor are treated versus the rich. In taxation this may require that the rich pay relatively more, requiring progressive taxation or rising tax rates.

Wage-adjusted: refers to indexation to wages rather than just to prices. New Zealand Superannuation is partially wage-adjusted and keeps the payment in line with growth in living standards, not just prices.

Working for Families: the package of family assistance policy measures announced in the 2004 New Zealand Government Budget.

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