CHiLD POVERTY ACTION GROUP

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Submission on the Budget Policy Statement 2021

To the Finance and Expenditure Committee,

Thank you for the opportunity to submit on the Budget Policy Statement (BPS-21).

About us

Child Poverty Action Group (CPAG) is an independent charity working to eliminate child poverty in New Zealand through research, education and advocacy. CPAG believes that New Zealand's high level of child poverty is not the result of economic necessity but is due to policy neglect and a flawed ideological emphasis on economic incentives. Through research, CPAG highlights the position of tens of thousands of New Zealand children, and promotes public policies that address the underlying causes of child poverty.

Summary

- The wellbeing approach in the BPS-21 needs to be reflected in actual policy improvements.
- The statistics highlighted in the BPS-21 and the worrying increase in family poverty requires a rejection of the inherent fiscal conservatism in the BPS-21.

Introduction – the wellbeing approach

All children in Aotearoa New Zealand should experience happy, thriving childhoods. We want public policy to deliver the best chance for all kiwi kids. However, due to policy neglect, New Zealand has a serious poverty problem.

While the wellbeing framework is a good idea and has long term potential, it must not be at the expense of the obvious improvements to income adequacy that can be made immediately. In particular, the heart of the system should focus on the needs of people, especially children, rather than paid work.

"Laying the foundations for the future, including addressing key issues such as our climate change response, housing affordability and child poverty" is set out in the 2021 BPS as one of the three "overarching policy goals for the next three years", and "Child Wellbeing – Reducing child poverty and improving child wellbeing" is the fourth of the five goals for the 2021 Budget.

These words have been heard before. We are discouraged that many of the pressing issues raised in our 2017, 2018 and 2019 and 2020 BPS submissions remain not yet actioned. We do not see evidence of necessary transformation, and we are deeply concerned that an approach characterised by incrementalism and 'setting the foundations' leaves the way open for National to undo any progress that has been made.[1]

We note with alarm that, as the BPS-21 sets out, nearly one third of New Zealanders are saying that they don't have enough or only just enough money, and that foodbank use has increased. This increase is not slight, as the BPS-21 suggests, but amounts to roughly 20% over June 2020 to September 2020:

> *"The HLFS wellbeing supplement found the number of people who have 'not enough money' or 'only just enough money' rose slightly from 29.6% in June 2020 to 31.4% in September 2020. The proportion of people who have received help from a church or foodbank also rose slightly from 4.3% in June to 5.2% in September. Sole parents, Pacific people, the unemployed, and those not working due to their own illness, injury or disability were more likely to report that their income was inadequate to meet their everyday needs."*

We continue to call for an immediate and substantial overhaul of the welfare system, including:

- Amending the purposes and principles of the Social Security Act so the welfare system is underpinned by the principles of inclusion and caring;[2]
- A substantial increase to core benefits so everybody has adequate income to meet basic needs, and the pressure is removed from the supplementary assistance system including the anomalous Accommodation Supplement[3]
- The fair indexation of all aspects of Working for Families. Working for Families should be indexed yearly with a link to wages, as is the case for New Zealand Superannuation;
- Treating children in low-income households fairly by paying the full Working for Families tax credit to all children in low-income households;
- A significant reduction in the harsh cumulative effects of abatement for low-income families as the best way to reward work effort;
- An end to all punitive sanctions and a debt forgiveness programme;
- Fairer treatment of people in relationships who receive welfare assistance by a meaningful move to individualisation.

In the light of the statistics highlighted in the BPS, and the worrying increase in family poverty that is so evident at the coalface (concerning NGOs across the social services sector), if not yet reported in the child poverty stats, we question:

- The inherent fiscal conservatism in the BPS-21;
- The justification for the continuing contributions to the New Zealand Super Fund;
- The failure to count New Zealand Super Fund assets in the calculations of net debt; and
- The government's belief in continuing poorly designed universal measures, when the majority of beneficiaries face undue hardship under a highly targeted and unfair regime of means-tested benefits.

[1] See St John, S. and Cotterell, G. (2019). National's family incomes support policy: A new paradigm shift or more of the same? Themed issue: National's social policy legacy. *New Zealand Sociology, 34*(2).

[2] See our report 'Further Fraying of the welfare safety net' and the Welfare Expert Advisory Group's Whakamana Tangata report.

[3] McAllister et al. (2019). The Accommodation supplement: the wrong tool to fix the house. Child Poverty Action Group.

We urge the government to use its mandate in Budget 2021 to make positive action to reduce the worst child poverty and to make the focus on wellbeing meaningful.

CPAG applauds the recent focus in the budget policy process on wellbeing rather than GDP, but it needs to be operationalised if it is not to run the risk of appearing to be tokenism.

We note that the Minister of Finance's introduction to the BPS-21 reiterates the importance of affordable safe and dry homes to wellbeing:

> *"The wellbeing objectives recognise the importance of addressing key issues such as climate change, housing and child poverty. Housing outcomes, for example, can be influenced across a range of the objectives: the sustainability of our housing stock will contribute to our Just Transition and climate change goals; Māori and Pacific communities currently have lower rates of home ownership and will benefit from more affordable housing; and improving children's wellbeing will be greatly influenced by improving access to warm, safe, dry and affordable housing, as will physical and mental wellbeing. "*

CPAG remains hopeful that a genuine emphasis on child wellbeing can be brought to the budget-setting process, but suggests there is little or no evidence of this in the BPS-21. We note with alarm that while the potential for a rise in interest rates is noted, there is nothing in the BPS-21 to address the growing wealth divide driven by the rampant speculative boom in housing (as CPAG discussed in its recent Briefing to the Incoming Government: Housing).

> *"Reserve Bank of New Zealand data shows that firms and households, in aggregate, paid down non-mortgage debt between February and October 2020, while household mortgage lending increased. Household debt levels, in aggregate, remain manageable because of low interest rates. However, pressure on some households' disposable income will increase if unemployment rises. While most households will be able to weather the economic effects of COVID-19, those with high levels of debt may struggle to meet debt repayments."*

While the BPS-21 acknowledges that Māori and Pacific people have been most adversely impacted in the Covid period and have suffered considerable erosion of their balance sheets that may never be reversed, especially if on benefits, we note that there is little indication of how this is to be addressed.

> *"The Treasury analysed incomes of all employees in March 2020, and how they had changed for the same people by August. This work showed that Māori and Pacific workers were more likely to have dropped into a low income bracket (of between $200 and $300 per week). The numbers of Māori and Pacific in this low income bracket had increased by 85% and 69% respectively, while the number of Europeans in the low income bracket increased by 27%. Most of the people in this income bracket were on benefits, although some remained employed but working reduced hours."*

Fiscal policy- a return to fiscal conservatism

The forthcoming Budget in May will be the 30th anniversary of the infamous 'Mother of all Budgets', and it is important to note that these cuts have never been reversed. Since 1991, there have been only two modest increases in benefit levels (aside from CPI adjustments) – one in 2015 and the other 2020. CPAG's interest in the Government's BPS-21 is because the level of child poverty in New Zealand is a matter of choice for this Government, and previous Governments. Money in families' pockets is the best antidote for child poverty,[4] and fiscal policy is an important means of providing this solution.

With this in mind, this submission offers critique of the framing taken up in the BPS-21 and the fiscal priorities expressed in the budget forecasts contained in the Half Year Economic and Fiscal Update 2020. This framing and these forecasts very much arise from the shocks of the COVID-19 pandemic.

BPS-21 celebrates the Government's leadership during the COVID-19 pandemic and shutdowns while ending in a downplayed announcement of 'business as usual' now that the COVID-19 response 'spending party' is more or less over. The Statement has a wellbeing lens and acknowledges the importance of the various well-beings and of child poverty and poor housing as part of this.

BPS-21 reiterates the Government's *'overarching policy goals;'* for the next three years as:

- *"Continuing to keep New Zealand safe from COVID-19"*
- *"Accelerating the recovery and rebuild from the impacts of COVID-19"*
- *"Laying the foundations for the future, including addressing key issues such as our climate change response, housing affordability and child poverty*."

These goals - especially the latter two - are not entirely compatible, and this is apparent within the actual priorities which are expressed in BPS-21. The expression of these priorities is not as explicit as it could have been, so some interpretation is required in order to sieve through the narrative to be able to identify these. CPAG's view is that the priorities offered in BPS-21 more or less indicate a return to the fiscal conservatism of the past and a business-as-usual approach, where financial deficits are more important than social ones.

A return to the fiscal conservatism of the past is illustrated in much of the BPS-21 narrative especially in discussion of the Government's fiscal strategy. For example,

> "(*T)he 2021 allowance provides a total of $10.5 billion to be allocated across the four-year forecast period. The Government will carefully prioritise spending to those people and areas that need it the most as we balance the need to continue supporting New Zealanders and the economy through the COVID-19 rebuild, against the need to maintain New Zealand's relatively strong fiscal position*. … *Our fiscal strategy takes a balanced approach to supporting current and future generations by managing debt prudently and reducing the deficit caused by COVID-19, while growing the economy sustainably and investing in important public services like health and education. … The long-term objective for the operating balance has been updated since the May 2020 FSR.12 The updated objective recognises that, in the current global environment, it is important that the Government invests to cushion the blow from COVID-19 and support the economic recovery*."

Detailed analysis

A review of the key fiscal forecasts since the end of 2019 tend to confirm this preoccupation with containing debt and returning the Government's operating position to surplus. This review is offered

[4] See Ministry of Social Development (2018). [Rapid Evidence Review: The impact of poverty on life course outcomes for children, and the likely effect of increasing the adequacy of welfare benefits (Prepared for the Welfare Expert Advisory Group).]()

in the following tables and compares forecasts from the HYEFU 2019 with Budget 2020 and HYEFU 2020.

Table 1: Core Crown Tax Revenue as % of GDP

	2019	2020	2021	2022	2023	2024	2025
+	28.4	27.7	28.0	28.0	28.2	28.4	
Budget 20	28.5	28.0	27.2	26.6	27.4	27.3	
HYEFU 20	27.9	26.9	27.3	26.3	26.9	26.8	26.9

Table 2: Core Crown Expense as % of GDP

	2019	2020	2021	2022	2023	2024	2025
HYEFU 19	28.6	29.3	29.4	28.8	28.6	28.1	
Budget 20	28.7	38.7	38.6	36.5	33.7	30.2	
HYEFU 20	28.0	34.5	35.3	32.2	31.1	30.1	29.3

Table 3: OBEGAL as % of GDP

	2019	2020	2021	2022	2023	2024	2025
HYEFU 19	2.4	-0.3	0.0	0.5	1.1	1.5	
Budget 20	2.4	-9.6	-10.1	-8.3	-4.7	-1.3	
HYEFU 20	2.4	-7.3	-6.7	-4.9	-2.9	-2.0	-1.0

Table 4: Net core Crown Debt as % of GDP

	2019	2020	2021	2022	2023	2024	2025
HYEFU 19	19.0	19.6	21.0	21.5	20.9	19.6	
Budget 20	19.0	30.2	44.0	49.8	53.6	53.6	
HYEFU 20	18.6	26.4	39.7	49.1	52.6	50.7	46.9

These tables illustrate a business-as-usual approach to tax revenue and Government's spending. Tax revenue remains at around 27% of GDP, despite the reported impact of the recent increase in the top marginal income tax rate to 39% (p.16), which will see those with a reported income of more than $180,000 pay an additional $60 per week in tax. Core Crown spending trends back to below 30% of GDP by 2025 as the economy recovers and Government reigns in spending. By 2025 the operating position is almost expected to be back to balance, and Government debt starts to reduce. Quite how Government is expecting to further reduce child poverty and to ensure that low-income households have access to affordable housing with these settings is not explained or apparent in BPS-21.

While on the face of it, Government's capital spending is expansive, much of the detail suggests otherwise. Table 5 summarises reported capital budgets from the HYEFU-2019, Budget 2020 and HYEFU 2020 and sums the budgets for the next three years – 2021/22 to 2023/24. Budgeted capital spending for this three-year period in 2019 (pre-COVID-19 shock) was anticipated at $29.7 billion and this rose a modest $2.8 billion in Budget 2020 to $32.5 billion. While the HYEFU 2020 proposed a capital budget of $42.4 billion for 2021/22 to 2023/24, an apparent increase of almost $10 billion, $11.6 billion of this capital was for bank bailouts for the Reserve Bank's funding-for-lending programme. Granted, this programme expects to see the capital to be advanced to banks being repaid from 2024 (hence the negative number in 2025); but this is an unknown, given the unprecedented times we are living in when it comes to monetary policy.

Table 5: Total budgeted capital spending 2019 to 2025 - *$billions - nominal*.

	2019	2020	2021	2022	2023	2024	2025	2022 to 24
HYEFU-19	6.7	8.5	11.7	10.6	10.2	8.9		29.7
Budget-20	6.7	10.3	15.0	11.0	10.9	10.6		32.5
HYEFU-20			20.3	25.3	15.6	1.5	-6.1	42.4

Limited provision is made in the HYEFU 2020 and BPS-21 for capital spending on social and affordable housing, although what is provided for is nominally outside of Government's direct control within the capital budgets of Kainga Ora. The HYEFU 2020 reports anticipated capital spending of $500 million between 2021/22 and 2023/24 through the Housing Infrastructure Fund and $100 million in 2021/22 on progressive homeownership programmes. These are welcomed starts, but there is no follow-through or ramping-up anticipated, so the glaring funding and infrastructure deficits facing local councils in high growth areas will continue. In CPAG's view, this needs to be addressed more realistically than with efforts such as the Housing Infrastructure Fund, which is just a $1 billion interest-free loan fund for councils[5]

Of some relevance to CPAG's interest in incomes and income support is Table 5.2 on page 118 of the HYEFU-20. This table is partially reproduced in Table 6 below with various categories of expenditure aggregated in order to emphasise their importance to the argument advanced here.

Four notable events occur around the data offered in Table 6. These are as follows:

- The budget for New Zealand Superannuation exceeds $20 billion annually for the first time in 2025 – a time when the numbers of people receiving this benefit will reach 939,000.
- Spending on the main working age benefits is expected to top $7 billion by mid-2022 and to remain at this level at least through to 2025. This is despite the expected economic recovery and decline in unemployment.[6]
- Housing subsidies are expected to increase by almost 60% between 2019 and 2025 and will exceed $4 billion annually by 2023. The number of people receiving the Accommodation Supplement will reach 400,000 by 2023 as well.
- Payments of additional hardship supplements are expected to steadily grow by more than 150% from the pre-COVID-19 base of $300 million annually to $764 million in 2024/25.

Table 6: Budgeted spending on income support programmes – 2019 to 2025 - *$ millions – nominal*

	2019	2020	2021	2022	2023	2024	2025
NZ Superannuation	14,562	15,521	16,490	17,484	18,584	19,581	20,625
Job Seeker Support & EB	1,854	2,285	3,355	3,677	3,514	3,402	3,250
Supported Living Payment	1,556	1,650	1,806	1,883	1,949	2,011	2,065
Sole Parent Payment	1,115	1,231	1,507	1,644	1,745	1,724	1,701
Main working age benefits	4,525	5,166	6,668	7,204	7,208	7,137	7,016
Accommodation Assistance	1,640	1,923	2,354	2,530	2,576	2,604	2,611
Income related rents	974	1,071	1,209	1,331	1,441	1,536	1,536
Total housing subsidies	2,614	2,994	3,563	3,861	4,017	4,140	4,147

[5] See https://www.hud.govt.nz/urban-development/housing-infrastructure-fund/

[6] See Table 3 – Summary of the Treasury's Half Year Update economic forecasts p.19 which reports cumulative economic growth of 15% between 2021/22 and 2024/25 and a decline of the unemployment rate to 4% by June 2025 – the same rate as in the June quarter of 2020 as the COVID-19 related recession started.

Family Tax Credit	2,131	2,189	2,147	2,042	2,047	2,147	2,140
Other Working for Families	635	641	641	648	653	664	662
Total Working for Families	2,766	2,830	2,788	2,690	2,700	2,811	2,802
Wage Subsidy Scheme		12,095	1,302				
Hardship Assistance	300	418	532	657	712	740	764
Other income support programmes	1,922	2,284	3,049	2,604	2,661	2,721	2,751
Total benefit expenses	26,689	41,308	34,392	34,500	35,882	37,130	38,105

The numbers reported in Table 6 suggest to CPAG that our present welfare arrangements are an expensive mess. The need to spend more and more on supplementary assistance such as the Accommodation Supplement and hardship grants is in effect a band aid on top of a band aid approach. This illustrates the inadequacy of the main benefits to support families and individuals who require this support, a point which was made to the Government in 2019 by the Welfare Expert Advisory Group (WEAG) in its final report *Whakamana Tāngata*. The Group's advice has largely been ignored by Government with none of 42 main recommendations being fully implemented.[7]

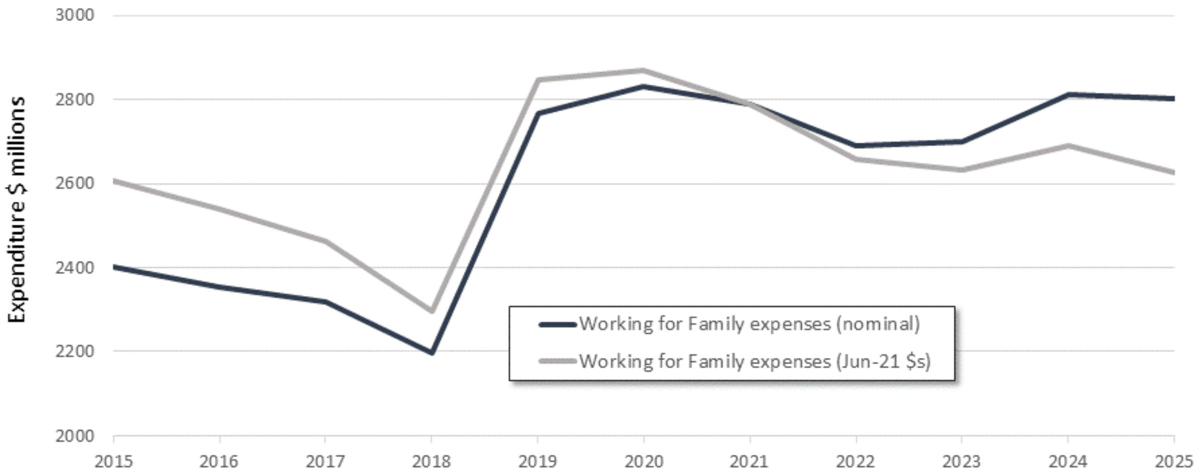
However, the growing expense of New Zealand's tax-funded income support programmes creates an opportunity to creatively rearrange budgets and to increase entitlements as demand for income support from the working age New Zealanders subsides. While the $14 billion spent on the COVID-19 wage subsidies was exceptional and not sustainable financially, the exercise of paying large amounts of income support to large numbers of people based on a high trust basis proved that such arrangements are useful and viable. The ability and need to spend almost $18 billion annually on income support outside of New Zealand Superannuation is now established in the budget settings reported in Table 6. CPAG believes that these settings should be a basis of the much-required overhaul of our welfare system. We will be advancing suggestions on how this might be done over the next few months.

Further, of some interest is the virtually static budget for Working for Families at around $2.8 billion annually. Working for Families is the Government's flagship programme in its attempts to reduce child poverty rates. Not reported in Table 6 is the $600 million increase in the Working for Families budget in 2018. This increase was the cornerstone of the 2018 Families Package. The Families Package contributed significantly to the modest gains made in reducing child poverty rates as reported recently by Statistics New Zealand.[8] However, this appears to have been a one-off increase, and once inflation is taken into account, the value of the $600 million increase provided in 2018 will be eroded away. This is illustrated in Figure 1 which reports nominal and real spending (in June 2021 dollars) on Working for Families between 2015 and 2025. Under current budget settings, the value of Working for Families spending in 2025 will be at the same level as it was in 2015. CPAG questions how further reductions in the extent and depth of child poverty are to be expected with such settings.

[7] See CPAG's November 2020 report *What happened to 'welfare overhaul'?* Available at https://www.cpag.org.nz/news/progress-on-welfare-reform-unjustifiably/

[8] See Statistics New Zealand's child poverty statistics at https://www.stats.govt.nz/news/latest-release-of-child-poverty-statistics

Figure 1: Actual and budgeted spending on Working for Families – 2015 to 2025[9]



It is CPAG's view that the fiscal conservatism of pre-COVID-19 times has reappeared in BPS-21. With this has come a pre-occupation with Government debt:

> *"The Government will stabilise net core Crown debt as a percentage of GDP by the mid-2020s and then reduce it as conditions permit."*

BPS-21 spends some effort (Figure 3, p.22) favourably comparing New Zealand's debt position with those of our Anglophone cousins. At the same time, Government politicians and officials have a inconsistent attitude to debt. The cumulative current account deficit of almost 15% of GDP over the forecast period is listed in Table 3 of BPS-21 without comment. Similarly, no mention is made of the housing-related debt which reached almost $300 billion by the end of 2020 and has grown by $100 billion in five years.[10]

CPAG is not advocating for a radical shift in Government's fiscal and monetary policy such as that proposed by 'Modern Monetary Theory'. As Committee members may know, this theory proposes that where governments are issuers of sovereign currencies, government deficits don't matter as much as conventional monetary theorists and government economic advisors would have us believe. In other words, the theory purports that government debt can be used more creatively than it is by conventional policy approaches.

While deficits and debt do matter in the economic world which CPAG and mainstream policy advocates occupy, it needs to be acknowledged that we are living in quite extraordinary times. Interest rates are at unprecedented lows never seen in recorded history.[11] In February 2021, the 10-year bond rate was 1.46% while the inflation indexed bond rate maturing in September 2040 was 0.56%. These times provide unique opportunities to do things differently and one of the mechanisms for such different approaches is governments' budget setting. Sadly, this is not apparent in BPS-21.

As Table 4 above and forecasts offered in HYEFU-20 report highlight, Government debt is rising fast. Between June 2020 and June 2023 this debt is forecast to grow from $83 billion to $189 billion. This

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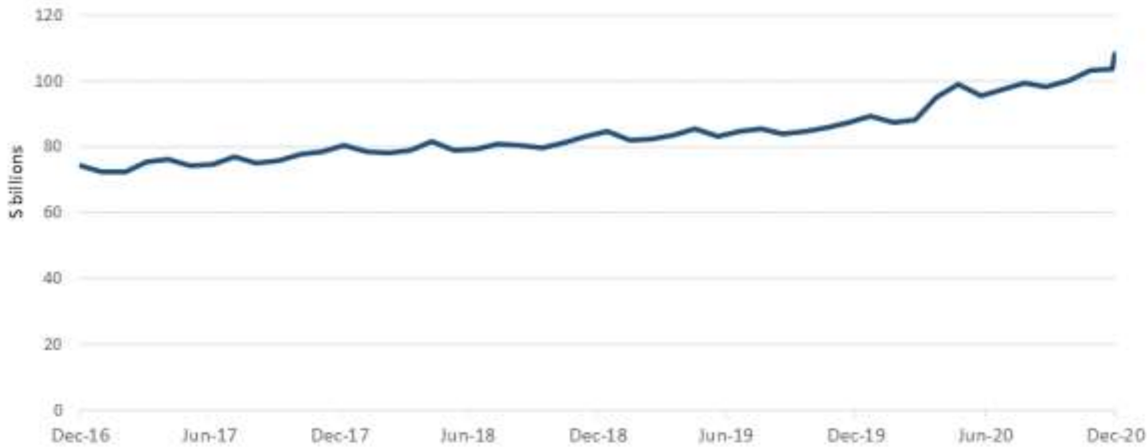
[9] These estimates are based on the HYEFU 2020 and the budgets and inflation forecasts provided in this
[10] See Reserve Bank's Statistics – Table C5 Sector lending (registered banks and non-bank lending institutions) -
[1111] The Bank of England reports bank interest rates back to 1694. See *A Millennium of Economic Data* at https://www.bankofengland.co.uk/statistics/research-datasets

borrowing has been used to prop up households and businesses during the COVID-19 shutdowns and to support so-called 'shovel ready' capital works in the public sector. While it is an extraordinary amount by New Zealand's scale, an important question to ponder is not just the scale of this encumbrance on the next generation of taxpayers, but the *value* of the spend for this generation of New Zealanders. CPAG has long questioned the need to contribute to the New Zealand Superannuation Fund and the lack of acknowledgement of the Fund assets in net debt calculation. Once these assets are netted off, net debt is very low.

CPAG suggests that public debt *per se* is neither good nor bad by definition, but it is important to consider what it is used for. There is some evidence to suggest that some of the COVID-19 related debt has not been well spent, and CPAG asks Committee members to reflect on this evidence as it considers questions of the quality of debt, present and future.

Figure 2 below reports Reserve Bank data on registered bank liabilities and cash deposits owned by New Zealand corporates between December 2016 and December 2020. This data shows that such deposits rose $20 billion (from $88 billion to $108 billion) in the ten months between February 2020 and December 2020. It is hard not to draw a conclusion that while future taxpayers were being encumbered with debt to support New Zealand business during the COVID-19 shutdowns, many of these same businesses were busy stashing cash into the bank. In hindsight, this borrowing may come to be seen as a significant transfer of wealth from ordinary New Zealanders to the wealthy.

Figure 2: Bank deposits held by non-financial sector New Zealand business – 2016 to 2020[12]



CPAG suggests that this transfer is important to consider as thought is given to future uses of public debt. **When public debt has been used to support corporate wealth accumulation, it is difficult to then argue that additional public debt to build public assets is bad**. Such assets might include modern schools, public housing, public transport networks and local council infrastructure to support the development of new housing.

Conclusion

In summary, CPAG sees BPS-21 as quite underwhelming. In light of rising wealth inequality and extensive material hardship, we need imagination and courage. Instead, we have returned to old narratives of 'debt is bad' and 'living within our means' – narratives taken from the analogy that the government is like a household, which it is not. A more useful and more apposite narrative is one of

[12] See Reserve Bank of New Zealand Statistics Table S40 Bank Liabilities – Deposits by Sector

our nation as a family. Families think about themselves intergenerationally, and invest in their children and grandchildren as their stake in the future. This is how we should think as a nation and how we should make important decisions, such as those within Government budgets.

CPAG asks the Finance and Expenditure Committee to grasp the opportunities presently to available to think intergenerationally. Our policy recommendations in our Briefings to Incoming Ministers on Housing, Health, and Income Support will provide you with more detail on these opportunities for transformation.