

## THE 1998 BUDGET AND CHILDREN

**From FOR CHILDREN - the newsletter of the Office of the Commissioner for Children, July 1998**

**In June 1997 over 350,000 New Zealanders were the primary recipients of the main income-tested benefits, around 15% of the working age population. This is almost a five-fold increase since 1975 in both total numbers and percentage of the working age population. More than 28% of New Zealand's children are now living in families receiving income-tested benefits. Increasing beneficiary numbers have raised expenditure on the main income-tested benefits from \$610 million in 1974/75 (in 1996 dollars) to \$3,772 million in 1996/97. This now represents 12% of government expenditure. (Budget Policy statement, February 1998)**

These stark figures corroborate the widening of the income distribution that has become so apparent in our communities. Of the poorest, families with children, especially sole parent families predominate. The cycle of low income, poor housing, poor health and poor education leading to unemployment, low income and depleted assets is depressingly familiar.

It is widely accepted that well paid employment is the only secure way out of this impasse. But in the absence of the willingness to expand job opportunities directly, society must find ways to protect the children caught in this quagmire. Unfortunately the 1998 budget offers no initiatives to alleviate the housing crisis among poor families, nor any to address the direct income needs of children. While additional spending on the Strengthening Families Programme was promised in the budget this has since been abandoned. Students have been given no relief from the high interest rates on their student loans, and the coalition agreement promise to implement a universal student allowance for living costs has been sidelined. With implications for families of older children, students who have not had a student allowance are to become ineligible for the emergency unemployment benefit in the holidays. In times of rising unemployment this policy will rebound on their families who may not want to, or be able to support them.

Despite the emerging economic crisis and diminishing budget surplus that forced a rethinking of the announced expenditure on the strengthening families programme, the tax cuts proceeded and were fully implemented by 1 July 1998. Beneficiaries, low income workers, and even middle income families where the income is contributed by both parents, gained very little, if anything from the tax cuts.

The size of the tax cuts make the minor increases in family assistance in 1996 and 1997 pale into insignificance. These increases in family tax credits deliver an extra maximum of \$20 per week per child to the low income families who qualify. In contrast, the highest two-earner households without children gained around an extra \$90 a week from the tax reductions. Some of the wealthiest superannuitant couples are as much as \$350 a week better-off with the tax cuts and the changes to the surcharge. This brings into sharp relief the more punitive attitude taken to those on benefits. For example, the 1998 budget signaled the intention to reduce the sickness benefit for new applicants to that of the unemployment benefit making a couple on this benefit \$30 a week worse off.

The current benefit system does not support and buffer families in their times of adjustment to the changing workplace. It only activates once the family is significantly impoverished. Once assets are depleted, the descent to the use of foodbanks and a demoralised future is ensured.

The (Backgrounder on the) Social Security 'Work Test' Amendment Bill No 6<sup>1</sup> arose from the recommendations in the 1998 budget to replace benefits with the community wage and require beneficiaries to be in or looking for work. This Bill has been vigorously contested in select committee hearings, with community groups virtually unanimous that the proposal is Draconian and unworkable.

The Child Poverty Action Group in their submission noted that the Amendment completely ignores the interests of children. It is as if they do not exist. The proposals for work testing of sole parents with young children and the heavy-handed sanctions for non compliance with work including a stand-down period of 13 weeks is indescribably harsh. The submission argued: 'A parent and their child or children, under this regime, could be without income for a quarter of a year because they can't afford a telephone to ring in when they or their child is sick, and the job is too demanding physically'. Along the same lines, the ability to cut a married rate of benefit by 50% as a consequence of failure to comply can only mean destitution for a family already at or below the poverty line.

Child Poverty Action concluded that this Amendment has the potential to encourage crime. How else is a parent with a cancelled benefit going to feed their children for thirteen weeks? It is a penalty-driven regime with a major potential adverse impact on children.

To assist families supported by benefits fulfill their work and community task obligations the 1998 budget massively extends the subsidies for after school childcare. A strong regulatory framework, and the monitoring and enforcement of adequate standards will be required if children are to be protected. The quality or nature of this care has not been discussed however, portending issues of exploitation and abuse. Another concern is that this assistance is to be closely targeted to low income families so that it has the potential to greatly add to the poverty trap. While the details of the child care subsidy and the conditions of its payments have not yet been made clear, to contain its cost, it will have to abate from low levels of income. Thus the combination of tax, abatement of the main benefit, loss of accommodation supplement, loss of child care subsidies, and other social assistance will make part-time work over a low amount hardly worthwhile. Enforced community work for those who do not have paid work carries no remuneration however, only the reimbursement of minimal costs.

The coalition policy of giving under sixes free visits to the doctor was welcome, but the 1998 budget did not extend this measure. The health of low income children continues to be of great concern with evidence that even with the under six policy and the community services card many families cannot afford to uplift all prescribed medicines or take older children to the doctor.

The 1996 and 1997 increases in family tax credits were also welcome, but the tax credits are not particularly generous, and were not extended in the 1998 budget. The Child Poverty Action Group has repeatedly argued that the move in 1991 away from a balance of targeted and universal child payments to a totally targeted family income assistance package has been unfortunate. Family Support is a tax credit for low income families only. The way in which the tax credit is reduced for extra family income creates high effective marginal tax rates of up to 63% and interacts with other targeted provision such as the community services card and child care subsidies. Thus extra income may be of little value after tax, and losses of the accommodation supplement, tax credits and child care costs.

The Family Support tax credit is complex and while it was adjusted in 1996 and 1997 by a total of \$5 per week per child, over time it has not kept up with inflation since it was introduced in 1986. This follows from the failure to increase its value regularly and to adequately increase the level of family income from which it starts to reduce, first at 18 cents in the dollar for incomes over \$20,000 and then at 30 cents in the dollar for incomes over \$27,000. These thresholds have not been adjusted for eight years.

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<sup>1</sup>[http://cpag.org.nz/backgrounders/1998-07\\_Social\\_Security\\_Bill.html](http://cpag.org.nz/backgrounders/1998-07_Social_Security_Bill.html)

One of the most disturbing aspects however has been the introduction of the Independent Family Tax Credit (IFTC) in 1996. This can be seen as in lieu of adjustments to family support of an adequate nature. The IFTC is available only to those who are said to be independent from the state and when added to Family Support restores the purchasing value of the payment to the 1986 level for those working low income families who qualify. Families who miss out because one or both parents are on a benefit, or retired, or have been on Accident Compensation for more than three months, or on a student allowance, have seen an unacceptable deterioration in their living standards.

Family assistance used to be given to all children in low income families on the same basis. Now low income families who lose their jobs in the current downturn or as a result of government policies, also lose the IFTC for their children. The amounts involved are not small, for example, a mother with four children would lose \$60 a week. The intention of the IFTC was to encourage families into full-time work, by offering a carrot, however in a downturn, the loss of the IFTC acts as a significant punishment for families unfortunate enough to lose their jobs.

For not much more than it cost to abolish the superannuation surcharge the Independent Family Tax Credit could be extended to all low income families and put another \$15 per child per week directly into the hands of the caregivers of young children. This would be a first step to alleviate family distress. But to make serious progress on the child poverty issue, society must be prepared for a massive effort in housing, health, education and income. One of the enemies of this possibility is the insistence on tax reductions for high income earners and the unwillingness of the powerful to share available resources.

It is apparent that the projections for growth in the 1998 budget are wildly optimistic and the economy is in for a long period of poor growth. The protection of children in the current downturn is paramount but the 1998 budget does little to address this urgent problem.