

left behind:

How Social & Income Inequalities  
Damage New Zealand Children

Susan St John & Donna Wynd (Editors)

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ACTION  
GROUP

Child Poverty Action Group (Inc) (CPAG) is a non-profit group formed in 1994, and made up of academics, activists, practitioners and supporters. CPAG has a strong education and research role which enables it to contribute to better informed social policy to support children in Aotearoa New Zealand, specifically children who live in poverty. CPAG believes that our high rate 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 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](http://www.cpag.org.nz)

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***Left behind: How social and income inequalities damage New Zealand children***

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## Preface

In late 2004, CPAG commissioned a report, *Cut Price Kids*, to analyse the Working for Families package. In the preface to that report, we wrote:

*“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.”*

(St John & Craig, 2004, p. 4)

The Working for Families package was welcomed as the first major redistribution of income in favour of poorer New Zealanders in 30 years. However, as the analysis in *Cut Price Kids* showed, there were serious design flaws in the package that effectively left around 175,000 of the country's poorest children behind. We urged that:

*“This package must not be seen as the only or the last step that needs to be taken.”*

The government had argued there was no more money for the poorest children, and that helping those on benefits was incompatible with their belief that “work is the way out of poverty.”

So it came as a surprise when, before the 2005 election, a great deal more money was found to augment the Working for Families package. The child-related tax credits were extended to middle-income families, at a cost of \$500m (a 50% increase on the initial package). This was achieved by significantly lifting the income threshold for the abatement of Family Support, and reducing the rate of abatement from 30% to 20% above this threshold. While these moves improved standards of living and work incentives for middle-income families, they offered nothing to the previously excluded, worst-off children. Within the Working for Families package, the In-Work



Tax Credit (IWTC) <sup>1</sup> remains a highly inequitable payment denied to the poorest families. Its discriminatory nature is the basis of the case taken by CPAG under the Human Rights Act, to be heard in the Human Rights Review Tribunal in 2008.

The nature of child poverty in New Zealand has been well documented by CPAG (Child Poverty Action Group, 2003; St John & Craig, 2004; St John, Dale, O'Brien, Blaiklock, & Milne, 2001; Wynd, 2005). The current project provides ongoing critical analysis of the state of New Zealand children in 2007 and the effectiveness of family policy. In this CPAG is fortunate to be able to draw on the experts in each of the fields covered. 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. Donna Wynd is CPAG's chief researcher, with qualifications in law, economics and science. Other CPAG executive members who have contributed are Dr Nikki Turner, Department of General Practice, University of Auckland; Professor Innes Asher, Department of Paediatrics, University of Auckland; Associate Professor Mike O'Brien, School of Health & Social Services, Massey University; Alan Johnson, Senior Policy Analyst, Auckland Regional Council and Social Policy and Parliamentary Unit of the Salvation Army; Professor Martin Thrupp, School of Education, University of Waikato; Dr Lorna Dyal, Senior Lecturer in Māori health at The University of Auckland; and CPAG Director Janfrie Wakim. We are also fortunate to have assistance and contributions from Professor Jenny Ritchie, Associate Professor Early Childhood Teacher Education, Unitec - Te Whare Wānanga o Wairaka; Cathy Rodgers, Assistant Director, Office of Human Rights Proceedings and Dr Louise Humpage, University of Auckland.

This report is unique in providing child-centred analysis of a wide range of social and economic influences as they play out in the lives of families facing hardship. This analysis demonstrates that by failing to place children at the centre, current policies have failed to directly tackle the serious nature of child poverty in New Zealand, and have allowed inequalities to grow. Alarming, New Zealand had the highest rate of growth in inequality in the OECD from 1982 through to 2000. In the mid-2000s many forces continue to operate to further widen wealth and income distribution. A raft of major tax policy changes, including the new savings plan called KiwiSaver, have the potential to make this problem even worse. Research shows how other disparities, in areas such as health, housing and education, feed the cycle of childhood poverty and disadvantage. These inequalities both stem from and further contribute to ongoing economic inequalities.

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<sup>1</sup> Formerly the In-Work Payment (IWP), the name was changed following changes to the names of some tax credits provided for in the Income Tax Act 2004 in December 2007. The IWP will be referred to as the IWTC throughout this publication.

Much government policy since the advent of Rogernomics in the 1980s has been dangerously narrow and selective in both its definition of work, and its insistence on the singular importance of paid work as the way out of poverty. Recent improvements in economic conditions have allowed many of those who can undertake paid work to find jobs and have the dignity that worthwhile paid work brings. However, too many have only ill-paid or unsuitable employment, and at any given time there is a large group for whom employment is impossible and/or undesirable. Without sustained and meaningful redistribution that includes the poorest, and not just those who meet arbitrary employment criteria, advantage will compound while the worst-off fall further behind.

As this goes to print international financial markets are volatile and uncertain, with portents of a recession in 2008. If or when parents lose low-paid jobs and find not only that core benefits are painfully low but that tax credits for their children fall significantly, holes in the safety net will be exposed for all to see.

Policies that make a paid job the only way to access sufficient income to care for children are flawed and are directly damaging to children. Until this ideology is abandoned, New Zealand will continue to suffer from the high economic, social and personal costs of child poverty. CPAG urges the government to consider the steps recommended in this report.

***“...a child raised in poverty is a child deprived of its fair chances in life – especially in a rich country such as ours.”***

Michael Cullen, Address to the Labour Party Conference, 2007.

# 1. Executive summary

## ***Child poverty and inequality***

In the last decades of the 20<sup>th</sup> century New Zealand had the fastest growth in income and wealth inequality in the OECD. Little has been done to improve the situation since then. Child poverty remains a major concern in New Zealand, even after the implementation of Working for Families (WFF). In 2001, NZ ranked near the bottom of the rich nations' index measuring infant mortality, children's health and safety, teenage pregnancy, and immunisation. It also ranked bottom in the percentage of 15-19 year olds in full- or part-time education, and in the number of deaths from accidents and injuries.

Despite the better economy and significant increase in paid employment, between 2000 and 2004 the proportion of all children in severe and significant hardship increased by a third, to 26 percent. In 2004, there were about 185,000 children in benefit families in some degree of hardship, with 150,000 of them in significant or severe hardship. While official data is yet to be produced for 2007, this report concludes that little has changed for this group of children who have been "left behind."

## ***Child-based welfare assistance***

In 1996 child benefit policies that discriminated against the children of beneficiaries were introduced. One key policy was the Child Tax Credit (CTC), which was available only to children whose parents were not on a benefit, ACC or student allowance. These policies undermined the principle that all children from low-income families should be treated the same.

In 2002, the New Zealand government finally acknowledged child poverty, and vowed to eliminate it. Yet it was not until 2005 that WFF was implemented. WFF represents a significant redistribution of money in favour of low- and middle-income working families with children, and has reduced child poverty in many of these families. But for families supported by benefits, increased family assistance has been offset by a range of benefit cuts, leaving many simply "no worse off" than they were before these changes.

WFF has not only continued the discrimination in the CTC, it has further widened the gap between low-income families on benefits and those in work, by introducing the In-Work Tax Credit (IWTC). The IWTC gives \$60 a week to families with up to three children and an additional \$15 a week for subsequent children. Now, to be eligible for the IWTC families must come off an income-tested benefit and meet a worktest. Families receiving a benefit are also excluded from receiving the Minimum Family Tax Credit (MFTC), which itself is a very unsatisfactory income support policy.

In 2005 the government augmented the WFF package by an additional \$500m by targeting families earning more than \$27,500. Children in families receiving benefits were not helped at all by this extra spending and remained excluded from the IWTC.

In 2008, the discrimination against the children of beneficiaries that began with the CTC remains in the IWTC. CPAG has challenged this discrimination, and has taken a case which will be heard by the Human Rights Review Tribunal in June 2008. CPAG states that the IWTC breaches New Zealand's human rights legislation by discriminating against children on the basis of the employment status of their parents.

### ***Work-based principles***

The reforms to New Zealand's social security initiated in the 1990s focused on moving people off welfare into work. Principles relating to the health and general welfare of the community, and participation and belonging, were abandoned. Working for Families and Working New Zealand have entrenched and extended this approach, promoting paid work as the way out of poverty.

While work is very important for reducing poverty and increasing overall wellbeing, a **“work first” policy is not sufficient to eliminate child poverty**. Parental or child illness and disability, physical and social isolation including poor access to services, fewer employment opportunities and lack of support may all act to preclude parents from paid work.

Leveraging more parents into low-wage jobs is expensive and, in the long term, largely ineffective. The cost of the additional administration required for Working New Zealand (WNZ) from 2007 to 2012 was estimated at approximately \$100 million.

Contrary to the assumptions underlying WFF and WNZ, evidence shows that most beneficiaries leave the benefit system of their own accord when they can. Generous welfare regimes need not result in a poverty trap and may be the most effective at reducing child poverty.

### ***Tax***

Flat tax regimes are regressive, and are a major contributor to income and wealth inequality. Low-income families are disadvantaged by the combination of New Zealand's relatively flat personal income tax regime and consumption tax (GST). Conversely, high-income earners are advantaged by the existing income tax regime and by gaps in the tax system, such as the lack of a capital gains tax.

Recent changes to the tax regime, such as tax breaks for savings in managed funds and KiwiSaver, signal a likely return to manipulations by the better-off to minimise tax, as occurred in the early 1980s. The fiscal costs of these tax breaks may preclude overdue tax cuts for those on low incomes.

## ***Health***

New Zealand children have higher rates of preventable illness and deaths from injuries than children in almost any other OECD country. They have comparatively high infant mortality rates and low immunisation rates.

The single most important determinant of health is income. A child growing up in poverty is three times more likely to be sick than a child growing up in a higher-income household. Poor nutrition, a stressful environment and substandard housing are factors that diminish a child's ability to fight infection.

Māori and Pasifika children are most at risk of poor health. Insufficient disposable income, substandard housing, inadequate nutritious food and unequal access to health care all contribute to the risk of poor health. Of all ethnic groups, Pasifika children have the highest rates of infant mortality and of hospitalisation for preventable diseases.

## ***Housing***

Rates of home ownership are now at their lowest since the early 1950s, reflecting decreased housing affordability and an absence of government-funded programmes to support home ownership for modest income households. Māori and Pasifika families are disproportionately affected by reduced housing affordability, and as a consequence are most likely to live in inadequate, overcrowded housing.

Low-income families increasingly unable to meet day-to-day expenses are often doubling up in the cheapest accommodation available, often state housing. Transience is a significant problem for the many thousands of low-income families in private rental accommodation, and has high costs for children's socialisation, education and health.

Housing and neighbourhood policies that deal with the many disadvantages faced by low-income households and communities are the key to providing stable, safe, healthy living arrangements for children, and supporting their development and education.

## ***Education***

Early childhood education (ECE) policies have a profound impact on children and their families. Quality early childhood education has been demonstrated nationally and internationally to have long-lasting benefits for both individuals and society.

Insufficient funding was identified as "the major issue confronting ECE services" in a 2007 national survey of New Zealand early childhood services. Almost a third of parents surveyed stated that they had difficulties in paying fees and donations, with low-income families more likely to face this dilemma.

Whānau-led services such as Playcentre and Te Kōhanga Reo are not eligible for the recently introduced provision of 20 hours per week free early childhood education for 3 and 4 year olds, raising significant equity issues for low-income families who wish to use these services.

Poverty also affects the education prospects of school-age children. Inequalities have been reinforced over time, compounding the disadvantages many children already face. Levels and methods of funding for low-decile schools are an issue, both because of relatively low parent and community contributions in such schools, and because of the sheer scale of their students' needs.

The reinstatement of school zoning would appear to protect the right of students from poorer families to attend local schools. However the fact that zones are now drawn up by schools rather than government allows zones to be manipulated to exclude lower socio-economic areas.

Given the effects of poverty on families and schools, full-service school provision should be extended in these areas. Successful programmes such as AIMHI have established that a "whole of student" approach can result in improved levels of achievement.

## ***Social hazards***

Easy access to social hazards such as gambling and alcohol has had a devastating effect on New Zealand's low-income neighbourhoods. Stereotypes of low-income householders as heavy drinkers and gamblers are inaccurate, but contribute significantly to the stigma of poverty.

Nationally, 47 percent of gambling venues are in decile 1, 2 and 3 areas. Pokie machines are five times more likely to be concentrated in decile 1 and 2 areas than in other areas and serve to transfer money from low socio-economic areas to better-off ones. The costs of problem gambling include job loss, ill health, and financial difficulties. Since the deregulation of gambling industries in the 1980s and 1990s, industry self-regulation has failed to protect low-income communities from the effects of gambling.

Smoking is a serious health hazard for children. Children from lower socio-economic groups are roughly twice as likely as those from affluent backgrounds to live in households with smokers. The government collects more than \$1 billion from tobacco taxes each year, only a fraction of which is spent on tobacco control programs. There is an urgent need for a substantial increase in funding for smoking cessation programmes, especially amongst low-income parents.

The deregulation of access to alcohol has also had a negative impact on low-income communities. High rates of homicide, assaults, domestic violence and other behaviours are associated with easy access to alcohol. People living in poorer urban areas are more likely to suffer the harm from others' alcohol consumption: roads and

footpaths are less safe, and rates of motor vehicle fatalities and accidental injuries are higher.

Deregulation of the finance sector, like deregulation of the gambling and alcohol industries, has served as an open invitation for those at its fringes to prey on low-income communities.

## **2. CPAG key recommendations**

### ***Income, tax and benefit actions:***

- Pledge to end child poverty in terms of all poverty measures in New Zealand by 2020.
- Designate an official poverty line at 60 percent of the median household disposable income after housing costs, and set net income for those on benefits at this measure to prevent poverty.
- Continue to monitor all major indicators of child poverty and report these on a regular basis with specific target reductions to be met on the way to ending child poverty by 2020.
- Acknowledge the vital social and economic contribution made by good parenting.
- Abolish the In-Work Tax Credit and add \$60 to the first-child Family Tax Credit (formerly Family Support). Universalise \$20 of the Family Tax Credit for each child under 5.
- Abolish the Minimum Family Tax Credit. Raise the first \$80 threshold for abatement of the Domestic Purposes Benefit to \$130 per week and the second \$180 threshold to \$225. Extend the 30 cents in the dollar abatement of net benefit effective between \$130 and \$225 to all beneficiaries with young children.
- Reduce tax on low incomes, and adjust benefits to maintain and improve their relativity with the new, higher, net average wage.
- Remove regressive tax incentives for KiwiSaver, especially the tax exemption for the employer contribution. Tax all investments at the appropriate marginal tax rate of the investor.
- Reform the tax treatment of rental housing investment to remove regressive advantages.

### ***Health actions:***

- Give children's health a much larger slice of the national health budget.
- Develop an intersectoral strategy to reduce socio-economic inequities in order to improve child health, particularly from pregnancy through to age 3, when the greatest potential exists for achieving improvement.
- Provide free accessible primary health care and medicines for children and young people under 18 years, 24 hours a day, 7 days a week.
- Improve access of children to better nutrition, including making breakfast in schools available unconditionally to all children in all Decile 1, 2 and 3 schools.
- Improve access to immunisation services to improve immunisation coverage in all groups to 90 percent by 2010 and 95 percent by 2012. This needs to include enrolling all children with a known general practice and well child provider at birth.

### ***Housing actions:***

- Commit to building more state houses, especially in areas of high need.
- Extend the Welcome Home loan scheme to enable more families in more areas to purchase their own homes.
- Establish a fund to landbank for affordable housing in high growth areas.
- Change the Tenancy Act to make it easier to establish long-term tenancies in order to reduce transience among renters.

### ***Education actions:***

- Improve access to quality ECE for tamariki Māori and Pasifika children in a way that recognises and affirms their culture.
- Extend the government-funded equivalent of 20 hours of free childcare to whānau-led services such as Playcentre and Te Kōhanga Reo. Monitor the pressure on families to pay 'optional' top-up fees, and ensure that the funding is adequate.
- Use the government's Discretionary Grants Scheme to address the lack of teacher-led ECE services in decile 1, 2, and 3 areas.
- The Ministry of Education take more control of school enrolment schemes to ensure schools' "zoning" cannot be used to exclude lower socio-economic neighbourhoods.



- School staff acknowledge publicly the many advantages enjoyed by children in high-decile schools, and seek to share those advantages as much as possible with children in low-decile schools.
- Full-service schools provided in low socio-economic areas.
- Continue to refine and improve the decile funding system, basing it on a more realistic understanding of the effects of poverty on families and schools.
- Improve the supply of teachers to low socio-economic schools by providing financial and resource incentives.
- Apply differing approaches to teacher education, teacher practice and school improvement appropriate to individual schools and their communities.

***Social hazard actions:***

- Establish alternative models for funding of community projects that do not depend on profits from gambling.
- Amend the Gambling Act to allow communities to remove machines licensed prior to 2001.
- Use taxes on tobacco to substantially increase funding for smoking cessation programs, especially amongst low-income parents.
- Raise the legal drinking age.
- Fast track the legislation to regulate and monitor finance and insurance sectors to protect consumers.
- Develop a state-funded microfinance system, with loans available at close to the bank rate, to assist families in financial crisis.

### 3. Introduction

This report comes out in 2008, a year after the government completed the rollout of its flagship family assistance policy, “Working for Families” (WFF). This policy was introduced following recognition that child poverty was a serious problem, in part because family income assistance had eroded in value over many years. The government also brought in a raft of other policies that have increased subsidies for housing, childcare and health. All this would suggest that we should be well on the way to relegating concerns about child poverty to the annals of history. Indeed, that was the view implied in a speech in 2007 by the Prime Minister:

*“Our major family tax credit package, called Working For Families, has dropped our child poverty rate to below the European Union average.”*

(Clark, 2007)

This report provides ample evidence that despite WFF, the poorest children have been left further behind relative to their peers. Only those families who meet a worktest receive the full benefits of the package, widening the gap between families “in work” and others, without regard for the wellbeing of children.

The recent sustained economic boom has demonstrated that **labour market participation alone cannot solve child poverty problems**. Spending large amounts of money to leverage more parents into low-wage jobs is no panacea. And working more hours is not always desirable, even if it may be possible, for parents trying to put the needs of their children first.

Ensuring sufficient, regular income is a precondition to dealing with poverty and its effects. Yet resolving child poverty and the problems it brings will require more than just money. Entrenched poverty means many families ability to cope day-to-day is eroded. More money alone will not address or compensate for the dysfunction arising from years of low income. The Ministry of Social Development has described how hardship “commonly reflects the compounding effects of multiple disadvantages,” often brought about by a traumatic event such as divorce, accident or redundancy (Jensen, Sathiyandra, & Matangi-Want, 2007). These events can occur independently of income, but often affect a parent’s ability to earn a living. This in turn puts financial pressure on families, which may lead to ill health or separation. Inadequate housing, lack of access to healthcare and public services, and other issues must be dealt with directly alongside lack of income.

However, acknowledging that income alone may not deal with child poverty cannot be used as a rationale for overlooking the critical role that money plays. In short, ensuring income adequacy is a necessary but not sufficient response.

Section 4 sets the context of the growth in inequality and examines the extent and depth of child poverty in New Zealand. There is a growing body of evidence that social and income inequality is harmful to individuals and society as a whole. The

group most affected by increasing inequality is families with children who rely on income-tested benefits. Section 5 outlines the nature of the recent social security reform, and who it affects, in particular the negative effects it is likely to have on the thousands of children in beneficiary families. The reform of social security is ongoing and has occurred with almost no public discussion or community input. Section 6 reviews and updates CPAG's analysis of the Working for Families package.

While benefits are one side of the income distribution story, tax is the other. Section 7 describes how New Zealand's tax system is presently undergoing a profound shift as tax breaks favouring the better-off are introduced, again with little or no public debate. Section 8-12 go on to explain what the experience of poverty means for children, reviewing in turn children's health, housing, education, and their exposure to social hazards.

Section 13 summarises the conclusions of this report. It also puts forward recommendations to reduce child poverty, including proposed changes to the tax system that give back some of the billions in income that low- and middle-income earners have been unfairly denied over the last 25 years.

Appendix 1 is a summary of CPAG's case to be heard by the Human Rights Review Tribunal concerning the Working for Families In-Work Tax Credit (IWTC). CPAG alleges that the IWTC breaches New Zealand's human rights legislation by discriminating on the basis of employment status.

## **4. Growing inequality and child poverty**

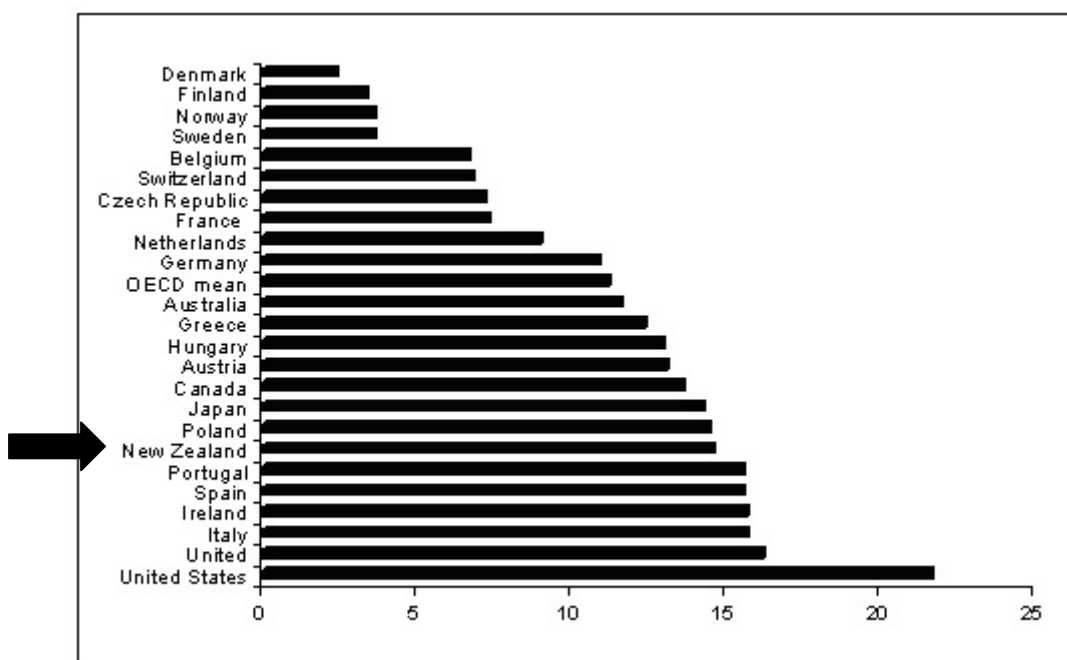
**Susan St John and Donna Wynd**

### ***Introduction***

New Zealand has long been regarded as a good place to bring up children and, for many families, on the whole it is. In recent years, paid work has been plentiful, with the lowest unemployment rate for decades, and homeowners have benefited from strong house price growth.

But despite the general good news, the 2007 Innocenti report on child wellbeing in rich nations painted a damning picture. The long hours worked by many adult New Zealanders may be reflected in the statistic that only children in Finland are less likely to eat the main meal of the day with their parents "several times per week." Of even more concern is New Zealand's ranking near the bottom of an index measuring infant mortality, children's health and safety, teenage pregnancy, and immunisation. It ranks bottom in the percentage of 15-19 year olds in full-time or part-time education, and in the number of deaths from accidents and injuries (UNICEF, 2007).

**Figure 1: Percentage of children (0-17) in households with equivalent income less than 50% of the median income (most recent data)**

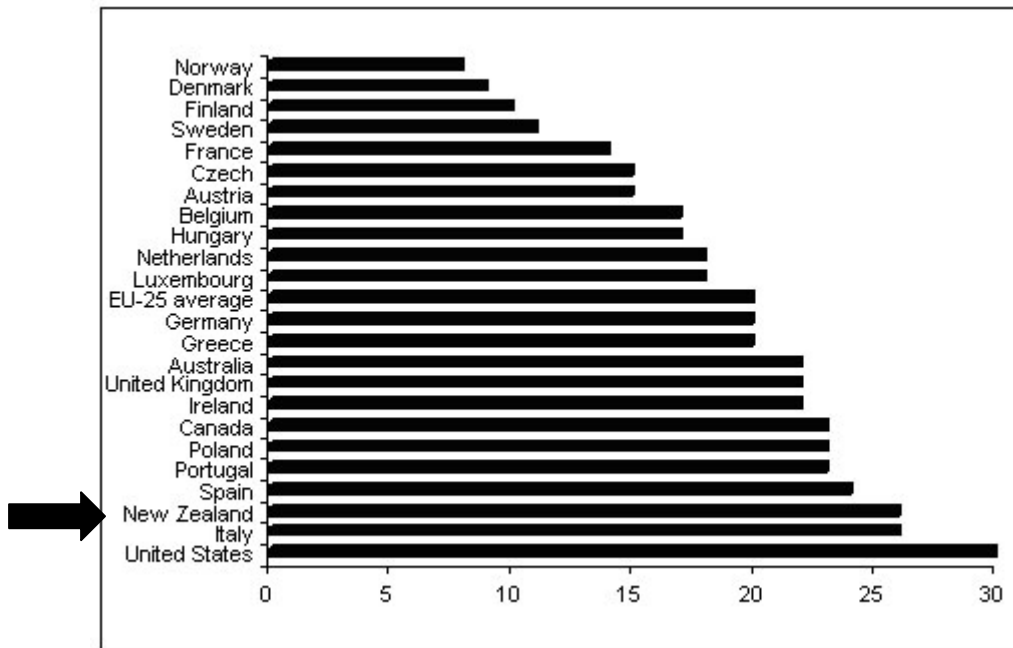


*Source: UNICEF, (2007)*

In terms of incomes, the Innocenti report showed that in 2001 New Zealand ranked 18<sup>th</sup> out of 24 countries in terms of relative child income poverty (Figure 1). Using a slightly higher poverty line, argued later in this section to be more suitable for New Zealand, New Zealand's child poverty rate is amongst the worst in the OECD (Figure 2).

In 2008 the Salvation Army published a state of the nation report highlighting the ongoing problems with New Zealand's children and young people (The Salvation Army Social Policy and Parliamentary Unit, 2008). Between 2002 and 2006 there was a steady increase in the numbers of referrals to Child Youth & Family Services (CYFS) and children in CYFS care; in teenage pregnancies and abortions; in youth offending; along with a significant increase in the prison population dominated by much higher rates for Maori, and high rates of re-offending (The Salvation Army Social Policy and Parliamentary Unit, 2008, pp. 4-11).

**Figure 2: Child poverty rates in the EU, US, Canada and Australia (%) ca 2003: 60% of before-housing-costs median income**



*Source: Perry, (2007b, p. 97)*

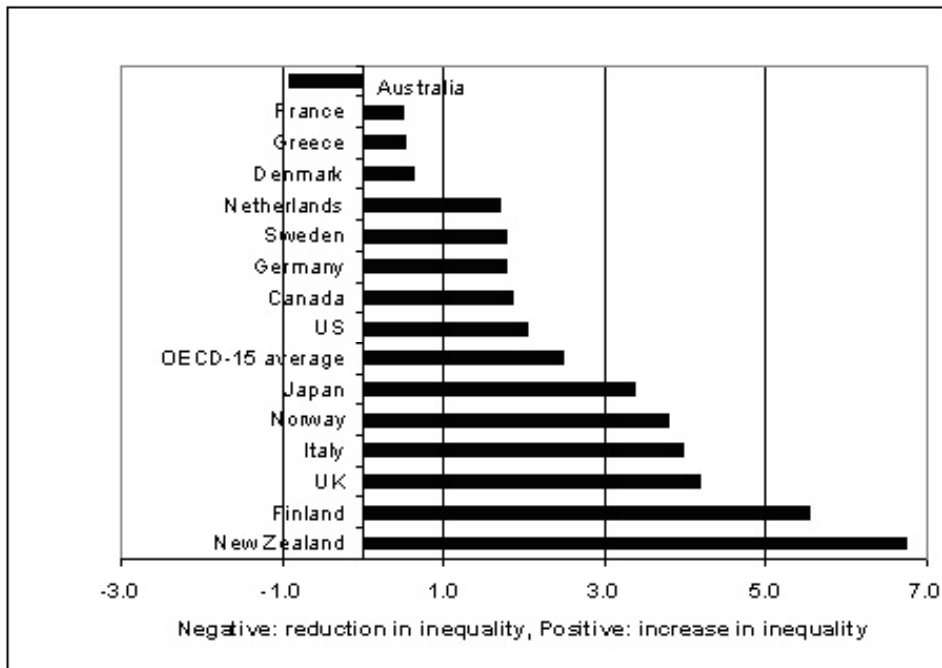
This section considers how we got to this sorry state. It begins by reviewing the growing income inequality in New Zealand, showing the changes that have resulted in so many children living without adequate incomes. Measuring poverty is difficult, and a number of methods are used. Different ways of measuring poverty are briefly discussed, including the widely cited hardship measure used by the Ministry of Social Development in the Social Report (Ministry of Social Development, 2006c). The section then looks at what has happened to child poverty in New Zealand using the different measures, and asks what has improved and who has been left behind by the changes in family assistance since 2004.

### ***Growth in inequality***

The rise of child poverty in New Zealand needs to be seen in the context of a rapidly widening distribution of wealth and income. In the last two decades of the 20<sup>th</sup> century, while incomes in neighbouring Australia became more equal, incomes in New Zealand (and in many other OECD countries) became more unequal. New Zealand's income disparity grew more than any other (Figure 3).<sup>2</sup>

<sup>2</sup> In 2000 New Zealand's Gini coefficient<sup>2</sup> was 33.9; that is, its income distribution was more unequal than Canada (30.1), the United Kingdom (32.6) and Australia (30.5), but not as great

**Figure 3: Changes to Gini coefficient for OECD-15 countries, mid 1980s-2000, disposable incomes**



Source: OECD, <http://www.oecd.org/dataoecd/12/4/35445297.xls>

as the United States (35.7). By 2004, the latest figure available, the New Zealand Gini had improved only slightly, to 33.5 (Ministry of Social Development, 2006c, p. 61).

In New Zealand, as in other developed countries, women and children have borne the brunt of this widening income gap. Childhood accidents, high rates of teen pregnancy<sup>3</sup> and domestic violence, including violence against children, and low rates of participation in education are all characteristics of societies with highly unequal income distributions (Kawachi & Kennedy, 2002; Wilkinson, 2005; Wilkinson & Pickett, 2007). Given the social impacts of wide income disparities, the damning Innocenti report is not a surprise. Our income gap is literally hurting our children.

New Zealand's widening income disparity is no accident. It is the predictable outcome of the economic reforms of the late 1980s and early 1990s. Among those reforms was a deliberate strategy of reducing benefits relative to wage income. In 1991 social welfare benefits, including the Domestic Purposes Benefit (DPB), were cut significantly. These cuts have never been restored and, although benefits are indexed to the Consumer Price Index, they have lost ground relative to average wages.

This gap was widened further in 1996 when the Child Tax Credit (CTC) was introduced. The CTC was available only for children in families who were "independent" of the state, and was designed explicitly to create an income gap between beneficiaries with children and employed parents.

Downward pressure on incomes was not limited to beneficiaries. The labour market reforms of the early 1990s depressed wages and kept them low throughout the decade, especially for unskilled workers. In contrast, the incomes of top earners have leapt ahead. In 1984 the share of national income accruing to the top 1 percent of income earners was 5.6 percent. By 1999 this had more than doubled to 13.8 percent, after which it slipped back to 8.8 percent in 2002 (Atkinson & Leigh, 2005). Only in the last few years has the minimum wage moved ahead of the rate of inflation, giving the lowest-paid workers a much-needed catch-up. Nevertheless, a fulltime shop assistant on the 2007 minimum wage of \$12.00 per hour has an annual gross income of only \$24,960. In fact, it is only income supplements from the state (such as the Accommodation Supplement) to wage earners that make paid work viable for many of the low-paid (National Distribution Union, 2007).

### ***Measuring child poverty***

Researching and measuring poverty, incomes and household hardship is difficult. In the last five years, the Ministry of Social Development has put considerable resources and technical skill into this time consuming task. Readers are directed to

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<sup>3</sup> There is much evidence that deprivation and poor educational outcomes greatly increase the risk of teenage pregnancy (see Health Development Agency summary, 2004).

MSD documents for the technical details of poverty measurement that are not repeated here (Perry, 2004, 2007a, 2007b).

Measures of child poverty are crude in nature as they reduce a highly complex situation to a single statistic. As well, different measures of poverty pick up different dimensions of poverty.

While there is no official poverty line in New Zealand, 60 percent of the equivalised disposable median family income, both before and after housing costs, is typically used (as explained later). “Equivalised” means household income is adjusted so as to account for the number of members in the family.

There are two main ways to update poverty lines over time. The absolute or “constant value” (CV) poverty rate measures the proportion of the population that falls below a fixed level of real disposable income.

Relative (REL) poverty is defined as not having sufficient income to enjoy a basic standard of living comparable to others in the community. It is often said that income must be sufficient to enable a sense of “belonging and participation”. The relative poverty rate counts those that fall below a given proportion of the current median income. This can be seen in Figure 1 and Figure 2 above.

The depth of poverty is measured by the extent to which incomes fall short of the benchmark.

The difference between the CV and REL measures of poverty can be seen in Figure 4 (which uses an after-housing-costs median as discussed below). It shows how child poverty has changed since the early 1980s.<sup>4</sup> In particular it shows that, in the early 1990s, the proportion of children living in households below 60 percent of the 1998 AHC median (CV) rose sharply as the recession reduced incomes, and benefits were cut. At the same time, *relative* poverty also rose, but by less, as the median income was stagnant or falling in this period.

Constant-value (CV) lines show how many people fall below a specified real income, and how this changes over time. The CV line is benchmarked to a median set in a particular year and held fixed in real terms. For example, recent constant-value measures in MSD publications show incomes benchmarked to the 1998 median. CV poverty measures do not show how low-income families and children are doing relative to others.

Relative income poverty measurements show how people are doing relative to a percentage of the median in the context of changes to the economy. For example, during a time of economic growth when median incomes are likely to rise, incomes

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<sup>4</sup> For a full discussion of these see Perry (2007b).

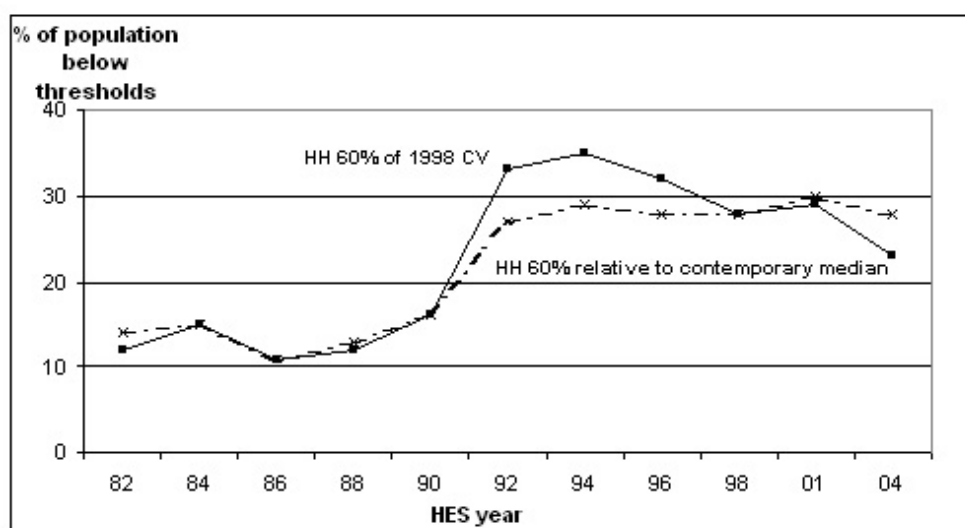


for those at the bottom may also rise; but unless they rise faster than the median, more low-income earners will fall below the poverty line. So even if they are better off in absolute terms, the gap between their earnings and 60 percent of the median increases.

Figure 4 shows this clearly. In the mid 1990s, when wages were static or rising only slowly, the position of low-income households improved relative to others. But from 1998 to 2001, as incomes improved, incomes at the bottom were improving at a slower rate, and relative poverty rose several percentage points. Relative child poverty fell slightly between 2001 and 2004.

**The important point is that by 2004 the proportion of children in poverty remained well above what it had been before the early 1990s.**

**Figure 4: Proportion of children below 60% median income (AHC): constant-value (CV) and relative (REL) measurements compared**



*Source: D Wynd, derived from Perry (2007b)*

It was recognised some years ago that a poverty line cannot be defined as the prevailing benefit level. Instead, an independent measure is required, one that allows an independent check on whether benefits are adequate to *prevent* poverty. However, what measure is appropriate is not always obvious: “Various percentages of mean and median equivalent household disposable income, by themselves, do not constitute a measure of poverty or income adequacy” (Stephens, Waldegrave, & Frater, 1995).

In an attempt to overcome this, the New Zealand Poverty Measurement Project (NZPMP) (Stephens, Waldegrave, & Frater, 1995) developed a benchmark of an income that households themselves judged satisfactory as a minimum. They used focus groups to determine what level of household income was necessary for

families of different sizes to achieve a minimum adequate standard of living, and how much was necessary for a measure of participation and belonging. This benchmark can be expected to change over time as policy parameters change; for example, if health charges rise, then more disposable income is needed. For this reason such benchmarks are specific to the time they were determined.

The focus group average for an income level in 1991 that enabled "minimum adequate household expenditure," including minimal participation, happened to correspond to around 60 percent of median equivalent household disposable income (Stephens, Waldegrave, & Frater, 1995, p. 99). This gave an independent justification for the use of a 60 percent line rather than a 50 percent line.

While the measure of 50 percent of median income is often used in international comparisons (see Figure 1), because wages in New Zealand are comparatively low this represents an extremely small income and thus produces far too low a poverty line for New Zealand. For example, for a family of two adults and two children it represents a disposable income in \$2007 of only around \$27,500, or for a sole parent with one child an income of \$17,500 (Perry, 2007b, p.57). Given that it might cost \$18,000 - \$22,000 p.a. to rent a typical three-bedroom home, such an income would fall far short of meeting this family's basic needs. Consequently, most commentators take 60 percent of the median income as a more appropriate measure (see Figure 2), a level that is also consistent with Stephens et al's research. The higher line of 60 percent is \$33,000 for a two parent two child family and \$21,000 for a sole parent with 1 child. (Perry, 2007b, p. 57).

More recent, as yet unpublished, research by the NZPMP team shows a greater variability between focus groups, with variation between different household types and, more generally, across the regions. Regional variation probably reflects differences in living costs, particularly housing. While focus group results show that a minimum adequate income has dropped slightly below the 60 percent line in some regions of the country, 60 percent or more is probably still likely to be required in the greater Auckland region.

## **Housing costs**

The Ministry of Social Development prepares before-housing-costs (BHC) and after-housing-costs (AHC) poverty lines. Although international comparisons are generally BHC, the escalation of housing costs in New Zealand and the importance of these to low-income budgets suggest that the AHC line is the appropriate one to use. A further reason for the AHC poverty line being more relevant is the unique position of many of the current cohort of older New Zealanders, relative to their counterparts elsewhere in the OECD. While the vast majority have little income besides New Zealand superannuation, because they own their own homes they have far lower accommodation expenses than most families with children. Hence, although their incomes are well below the median, home ownership has protected New Zealand's

elderly from rising housing costs. Universal superannuation and home ownership combine to ensure they are relatively well off. A BHC poverty measure would serve only to obscure the relatively better-off position of the old by counting as poor many who are not suffering any significant degree of hardship. Figure 6 (p. 22) shows the striking difference in hardship rates between the young and the old in New Zealand.

### **Poverty depth and persistence**

In addition to concerns about who and how many fall below a given poverty threshold, any meaningful analysis needs to show how far below the threshold people are, and whether their position has changed over time. In other words, we must consider the depth and persistence of poverty.

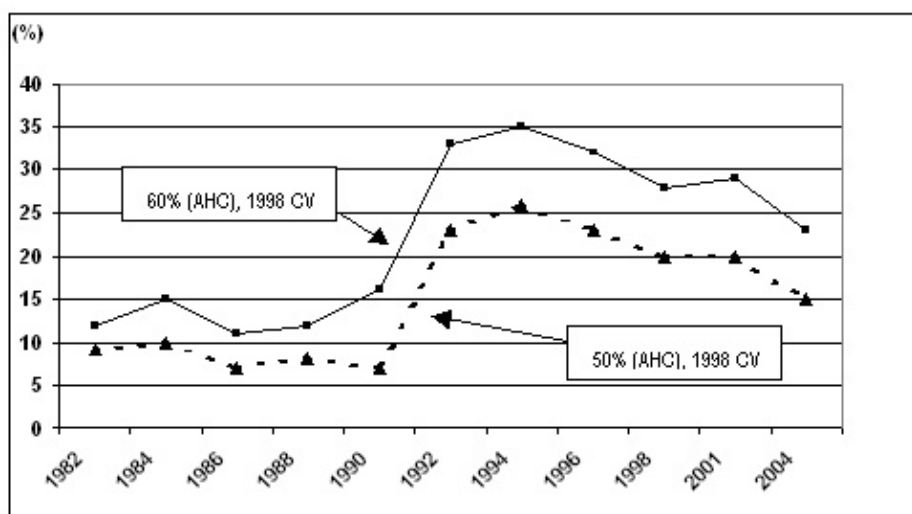
Poverty depth refers to how poor the poor are. Are they only slightly behind most others, or is there a significant gap between the bottom strata and the rest? An upwardly mobile group just below a threshold requires a different policy response than a group falling further behind over a sustained period of time.

Perry (2007a, p. 67) uses several measures of poverty depth. As with other poverty measures, the precise results depend on the approach used, but overall they indicate that poverty depth increased from 2000 to 2004. As with poverty rates, poverty depth is more marked for children than for the population as a whole (Perry, 2007a, p. 68).

A further consideration is the persistence of poverty. Again, long-term poverty requires a different response from short-term changes in income that people recover from relatively quickly. The persistence of poverty is a key issue underlying assertions of “inter-generational” poverty in New Zealand. Unfortunately, the available evidence is anecdotal. New Zealand does not have sufficient income information to formally measure the persistence of poverty, although the MSD is presently working on this (Perry, 2007a, p. 57).

Figure 5 shows changes to child poverty rates using the 50 percent and 60 percent after-housing-cost CV lines from 1984–2004. Despite falling from a peak of 35 percent (using the 60 percent line) in 1994, in 2004, just under one in four children remained in poverty. From the peak in 1994 there appears to be a drop in real poverty for families whose incomes put them below the 50 percent line, but there was no improvement in relative child poverty for these “poorer poor” (Perry, 2007b). By 2004, although better than at any time since the early 1990s, the proportion of children living in poverty on either a CV or a REL basis was still well above poverty levels prior to 1990.

**Figure 5: Proportion of children below selected thresholds (AHC): 50% of median (CV) and 60% of median (CV)**



*Source: Derived from Perry, (2007b)*

## Hardship measures

The use of household income to assess poverty has well-known limitations. It does not, for example, pick up access to the use of assets, or special circumstances of the household such as having high healthcare costs. A “deeper and more reliable insight” into living conditions is gained by the use of indicators other than income alone (Bradshaw, 2005, cited in Hoelscher, 2006, p. 259; O'Brien, 2005).

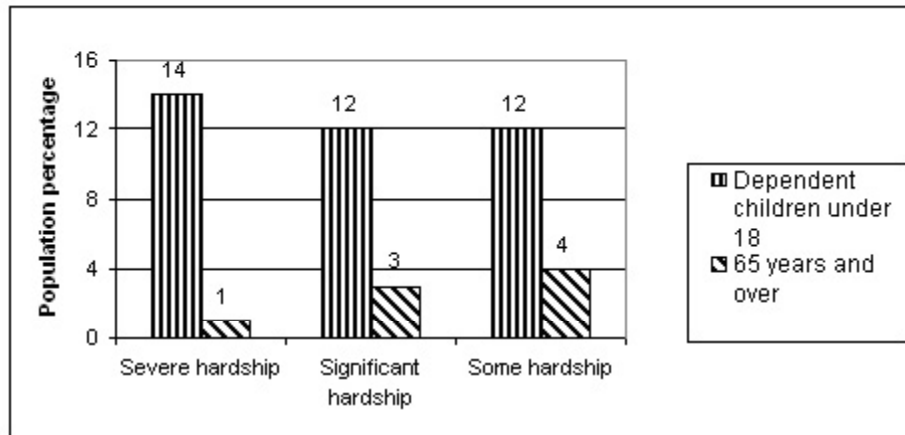
In recognition of this, MSD has developed a measure of living standards, which measures and counts those who have low living standards based on their restricted access to basic goods and services. Living standards are divided into seven levels, ranging from “very good living standard” to “severe hardship”. Someone in severe hardship is likely to have financial problems, live in inadequate or overcrowded housing, and go without fresh fruit and vegetables, new clothes, and medical treatment.

An important facet of wellbeing is people’s ability to socialise and interact with others. Community is important, and for this reason the Living Standards Report also included a self-assessment component in its survey (Ministry of Social Development, 2006b, p. 19). Thus the Economic Living Standards Indicator (ELSI) recognises that while what people have and are able to do are critical to wellbeing, people’s perceptions of their situation also matter.

In 2004 in New Zealand, 26 percent of all children under 18 were living in severe or significant hardship. In contrast, as seen in Figure 6, only 4 percent of those over 65 came into these categories, despite the fact that many older New Zealanders’ only source of income is a pension. Home ownership – something many of their

grandchildren can only dream of – and a reliable pension have protected many of the elderly from hardship they might otherwise suffer.

**Figure 6: Percentage of dependent children under 18 and percentage of those aged 65 and over in hardship, 2004 (ELSI Scale).**

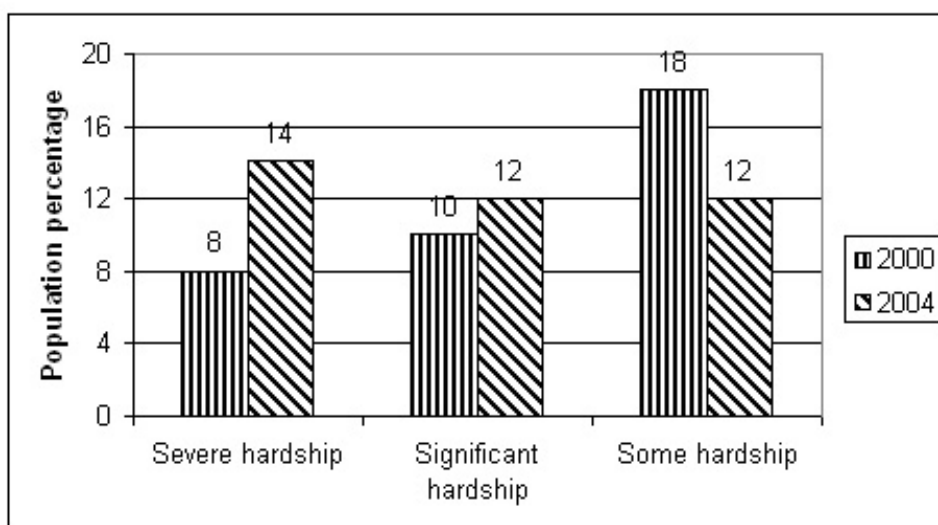


*Source: Ministry of Social Development, (2006b)*

The 2004 report showed a marked deterioration in children’s living standards between 2000 and 2004. Although the percentage of New Zealand children living in some hardship fell, the percentage living in severe and significant hardship increased from 18 percent to 26 percent (Figure 7). The report provided further indirect evidence of New Zealand’s widening income gap: while the living standards of some children in the middle (“some hardship”) improved, living standards for many more deteriorated, essentially hollowing out the middle group.

Children in beneficiary families were worst hit by falling living standards (Figure 8, p. 24). By 2004, 58 percent of families on income-tested benefits were in severe or significant hardship and 72 percent suffered some degree of hardship. It is important to note that sole parenthood was not the key factor. The underlying cause of hardship was being on a benefit, not the marital status of parents. Nevertheless, families on benefits are predominately sole parent families, with approximately 75 percent of children in families on benefits belonging to sole parent households (Ministry of Social Development, 2004a, p. 164).

**Figure 7: Changes to living standards, dependent children under 18 years, 2000 and 2004.**



*Source: Ministry of Social Development, (2006b)*

A Rotorua Peoples Advocacy Centre study (2007) found that the sole parents in their study identified lack of adequate income as a critical issue, and food insecurity was the most significant consequence of this. Three of the participants said that they go without food at times in order to feed their children, resulting in nutritional deficit and contributing to ill-health. A quote from ‘Joni’ sums up:

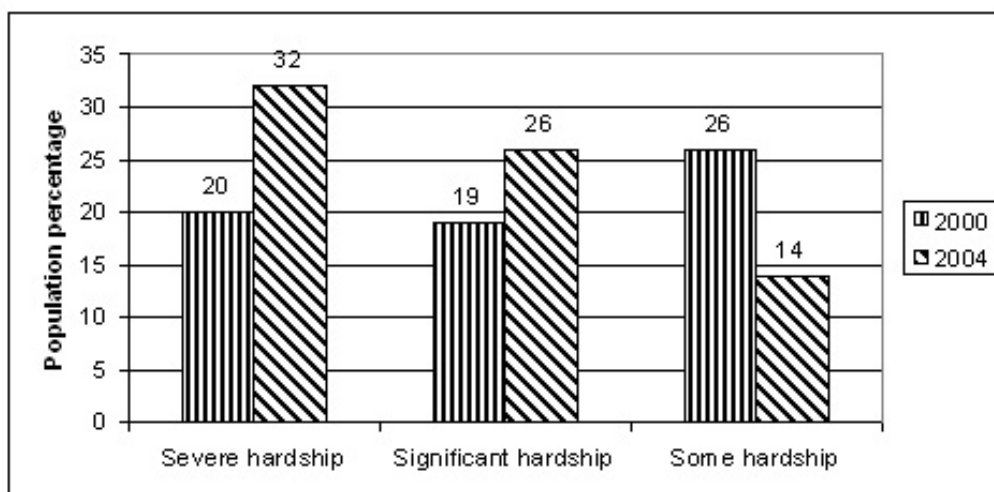
*“That’s been my problem all over Christmas. I have not eaten. My friend across the road...we go over there and my girls say ‘We’re hungry, hungry, hungry’...and that’s how I’d become so unhealthy and ended up at the doctor’s last week. I was quite a mess...almost ready to...what I felt was a breakdown.”*

(The Rotorua Peoples Advocacy Centre (RPAC) Inc., 2007, p. 23)

So despite national income increasing by 17 percent between 2000 and 2004, for many children and their families hardship became worse.

In 2007 the MSD produced an alternative measure of living standards, the Fixed Reference Index of Living Standards (FRILS) (Perry, 2007a), for consideration alongside the ELSI measure. Both measures give a similar picture of the relative position of different sub-groups – children are over-represented at the lower end of both scales. When monitoring changes over time, the FRILS measure removes the aspirational aspects of ELSI and therefore gives a better estimate of the changes to absolute living standards.

**Figure 8: Living standards of families on income-tested benefits, 2000 and 2004.**



*Source: Ministry of Social Development, (2006b)*

The living standards report in 2006 had shown that by 2004, although some families could afford less than in 2000, in keeping with the general increase in consumption during this period, they aspired to have more. This partly explained the rise in hardship as measured by ELSI.

When the aspirational aspect of ELSI is removed, FRILS shows there is a smaller but still significant increase in absolute hardship for the worst-off families over this period. Nevertheless the trends are similar, and a preference for the use of ELSI may be justified by the argument that aspirations are a legitimate part of relative living standards.

At the time of writing, the official impact of WFF on child poverty in the 2007/8 year awaits analysis, using data from the 2007 Household Economic Survey. We would expect to see a fall in child poverty, as Working for Families lifts the incomes of low-income working families and economic growth continues to provide more employment and income growth. But some children may be lifted by only a few dollars above the 50 percent poverty line and thus escape being captured in the count, especially if a CV poverty line is used. Data already released by Statistics New Zealand shows there has been a more rapid growth in the median income since 2004 than had been projected when the modeling work for Working for Families was carried out in 2003 (see Perry, 2004). This suggests that the expected reduction in relative poverty will be difficult to achieve. The estimated reduction in relative poverty (30% at the 60% line and 70% at the 50% line) may prove too optimistic.

Some corroborative evidence of persistence of poverty, using trends in foodbank data and comparisons of benefit levels relative to housing costs, is discussed in later sections.

## ***How many children have been left behind?***

Using the relative 50 percent line, the government claimed that child poverty would decrease by 70 percent by the 2007/8 year, putting New Zealand “in the top four OECD countries on the relative child poverty indicator” (New Zealand Government, 2007). On the more appropriate 60 percent line, the impact of WFF was expected to be a rather more modest 30 percent reduction, still leaving one in five or 20.5 percent of children in poverty (Perry, 2004). However, many children remain in hardship today largely because their parents are on very low benefits and their family tax credits from the Working for Families package are significantly less than for other low-income working families.

The numbers of children who were both in hardship and lived in families on benefits in 2004 can provide a guide to the size of this group. Figure 8 shows that 72 percent of families with dependent children receiving income-tested benefits were in the bottom three levels of hardship, and 58 percent of these families were in severe or significant hardship (Ministry of Social Development, 2006b). As at 30 June 2003, a total of 144,130 families with children (under 18) were in receipt of core benefits (Ministry of Social Development, 2004a). Using the figures from the *New Zealand Living Standards* report, approximately 103,700 such families were living in some degree of hardship, and 83,500 such families were living in severe or significant hardship.

The approximate average number of children per family is 1.8. This means there were about 185,000 children in benefit families in some degree of hardship, and 150,000 in the bottom two categories of hardship, at the time the WFF package was enacted. Most of these children are likely to have remained in hardship in 2007 and been further alienated from their peers.

## ***Conclusion***

If child poverty is to be addressed in a meaningful way, attention must be paid to improvement on *all* measures. Real incomes for *all* poor households must rise so that absolute poverty falls. Relative poverty and the depth of poverty must also decrease, and indicators of hardship must show improvement. Only then can we be confident that we have started to reverse the widening income gap that has been the dominant feature of the New Zealand economy since the early 1980s. Only then can we be confident that the damage poverty has done to our children is being repaired.

From the vantage point of the end of 2007, there is no doubt that WFF is of significant benefit to those working families who are eligible. For this group, we would expect to see improvements in both constant-value and relative poverty data. And, as the figures suggest, even at the higher 60 percent threshold we would expect to see substantial reductions in poverty.



But for about 185,000 of the poorest children in families who do not qualify for the full package, and have had other offsetting reductions in income, a reduction in CV poverty is unlikely. If the REL poverty line is used, then this bottom group's poverty will continue to deteriorate, as they fall further and further below the rising median. In other words, their poverty may be worse on all poverty line indicators.

It is important that there are official goals set to reduce child poverty, as is the case in the UK, and that these goals are set clearly in terms of the various measures outlined in this section.

### ***CPAG key recommendations***

- Pledge to end child poverty in terms of all poverty measures in New Zealand by 2020.
- Designate an official poverty line at 60 percent of the median household disposable income after housing costs, and set net income for those on benefits at this level to prevent poverty.
- Continue to monitor all major indicators of child poverty and report these on a regular basis with specific target reductions to be met on the way to ending child poverty by 2020.
- Acknowledge the vital social and economic contribution made by good parenting.

## 5. Work, families & poverty: Overview of social welfare reforms

Mike O'Brien,<sup>5</sup> Donna Wynd, Louise Humpage<sup>6</sup>

### *Introduction*

*“On the one hand we sit by in this House today and watch \$95.7 million being spent on reforming the social support system to supposedly create a work-focused system, and on the other hand we close our eyes to the fact that not one cent will go towards the creation of jobs that people want to get out of bed for – not one cent to enable the establishment of meaningful, adequately paid, secure employment.”*

(Sharples, 2006)

This section gives a brief overview of social security reform in New Zealand, including the reforms initiated by the present government.<sup>7</sup> Social security reform directly affects children, particularly the approximately 212,000 children whose families presently receive benefit income. Children’s wellbeing is often cited as a reason for reforming welfare, even though so-called reforms often involve reducing the support available to them, as with the 1991 benefit cuts. The evidence from New Zealand shows that children are more likely to end up in poverty – and remain there – when support is reduced. Children’s wellbeing is not, therefore, a plausible reason for cutting benefits, whatever proponents claim. This section looks at some of those claims and at the evidence.

Much has been written about welfare reforms in the 1980s and 1990s (Boston & Dalziel, 1992; Boston, Dalziel, & St John, 1999) so they will not be discussed in detail here, except as a background to the present reforms. More relevant are the reforms implemented since 1999 by the Labour administration, which entrench and extend reforms initiated in the 1990s. Ushered in with third way rhetoric about “sustainable social development” and “promoting equality of opportunity for all,” the reforms have focused primarily on moving people off welfare into work.

Welfare reform has been occurring since the late 1980s, when social assistance was no longer portrayed as a means to allow the unemployed and disadvantaged to maintain a minimal but adequate standard of living. Instead, the welfare state was

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<sup>6</sup> Lecturer, Department of Sociology, The University of Auckland.

<sup>7</sup> Humpage (2007) has looked at these issues in greater depth. Her paper can be found at [www.auckland.ac.nz/publicpolicygroup](http://www.auckland.ac.nz/publicpolicygroup).

described as a “drag on the economy” (The Treasury, 1990, p. 95), and the poor had an obligation to be “self-reliant” or risk being left behind. The state’s role in helping the poor become self-reliant was to be minimal, as Treasury made clear: “It is important to consider the incentives on individuals to look after themselves or for families or voluntary community organisations to assist” (The Treasury, 1990, p. 97).

In practice this meant a broad policy of replacing state support with market incomes, no matter how low-paid or insecure those incomes were, and “work first” – that is, paid employment – became the catch cry of welfare reform in New Zealand, as it was elsewhere. In 1995 the Budget policy statement declared, “the main focus of the Government’s economic, fiscal and social policies is to promote economic growth and social cohesion,” before going on to clarify: “The 1995 Budget will enhance social cohesion through focusing on...helping New Zealanders into work and assisting those least able to support themselves” (Birch, 1995).

Hence, by June 2001, when the Labour-coalition government published *Pathways to Opportunity*, public discussion around welfare was already focused on the need for individuals to be responsible, entrepreneurial consumers who did not require state support. *Pathways* continued this, setting out a new agenda for overhauling New Zealand’s social security system, focused on six areas:

- A simpler system;
- Making work pay and investing in people;
- Supporting families and children;
- Mutual responsibilities;
- Building partnerships; and
- Tackling poverty and social exclusion (Humpage, 2007).

Since the release of *Pathways*, the government has introduced a number of changes. Among the stated aims is improving social inclusion, which, it is suggested, comes from work and work alone (Benson-Pope, 2006; Maharey, 2005; Ministry of Social Development, 2004b).

The two key planks of Labour’s reforms are Working for Families (WFF) and Working New Zealand (WNZ). WFF is a family assistance package designed to “make work pay,” with the aim of assisting low-income working families by increasing their take-home pay, and providing financial support to overcome barriers to participation in work.<sup>8</sup> WFF was announced as part of the 2004 budget, and was described by the

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<sup>8</sup> Working for Families is discussed in more detail in Section 6.

government as “the biggest change to New Zealand’s social assistance system in over a decade” (Maharey, 2004).

*Working New Zealand* was the second stage of the government’s welfare reform. It aimed to “increase opportunities for people to participate in the labour market, where work is an appropriate outcome,” and to “continue to provide social and financial support for people with temporary or long-term barriers to work” (Benson-Pope, 2006, p. 1).

WFF and WNZ mark a major change in thinking about the role of the state in alleviating and preventing poverty in New Zealand.<sup>9</sup> They reflect the post-welfare philosophy that “work in paid employment offers the best opportunity for people to achieve social and economic well-being” (New Zealand Government, 2006, p. 17). In the rhetoric of the “third way,” paid work is promoted as the best way, even the only way, out of poverty. Rather than guaranteeing an adequate income or full employment, the state’s role has been reduced to providing selective work incentives and childcare subsidies for low-income workers. Yet as studies from the EU make clear, the success of “work first” policies is highly dependent on a range of other conditions:

*“Giving priority to ‘work first’ policies and reducing unemployment and inactivity are not enough unless they are accompanied by measures to reduce poverty in working families and by effective redistribution to those out of work.”*

(Sinfield & Pedersen, 2006, p. 229)

In the buoyant economy of the mid-2000s, wages at the bottom end of the distribution have improved, but slowly, and from very low levels. The overall improvement in average family incomes has allowed for the further erosion of the social security system with little public discussion of the implications, such as what happens if the economy starts to lose jobs.

In 2007 the song remains the same, but the harsh, moralistic language of the hardline reformers has been moderated with terms such as “opportunity” and “inclusion”. This language serves to disguise the fact that the risk inherent in earning a living in a “flexible” deregulated labour market has been increasingly loaded onto individuals. At the same time the safety net designed to protect them in times of adversity is shrinking. The Welfare State that promotes “the health and general welfare of the community” (Social Security Act, 1938) has been abandoned, as has the principle that “everyone...is able to feel a sense of participation in and belonging

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<sup>9</sup> A discussion of family assistance prior to Working for Families can be found in St John & Craig (2004) and in O’Brien (2007).

to the community...” (Royal Commission of Inquiry into Social Security, 1972). Instead, the purpose of the recently passed Social Security Amendment Act 2007 is, *inter alia*, “to help people to find or retain paid employment” (Section 23), and, grudgingly it appears, “to enable in *certain circumstances* the provision of financial support to people to help alleviate hardship” (emphasis added). State assurance of income adequacy has no place in the new regime; social inclusion comes through paid work and paid work alone.

### ***Who is on a benefit?***

Welfare reform has a real impact on children. Benefit cuts, work requirements, and so-called work incentives that widen the gaps between the children of beneficiaries and others all have consequences for children’s wellbeing. Given the emphasis WFF and WNZ place on getting people off benefits, it is important to review who is on welfare, and why.

In December 2006 there were 218,985 children in households reliant on benefit income.<sup>10,11</sup> Of these, 169,902 were in sole parent households, while a further 29,923 had parents who were Sickness and Invalids beneficiaries.<sup>12</sup> Thus, almost 19 percent of New Zealand children aged 19 and under<sup>13</sup> were in beneficiary households. If we are to provide “opportunities for all” then we must pay attention to these children’s needs. The lives of these families are often fractured and stressed and accessing even their rightful entitlements from WINZ can be daunting.

*“WINZ staff should...remember they are dealing with human beings who are needy, fearful...and desperate to provide for their families. Their lives are complicated and often chaotic, and they might not be able to tick all the boxes required by WINZ for help. This should not stop them from receiving help, but that frequently appears to be the outcome.”*

(MacLennan, 2007)

The essential role access to a benefit plays in the lives of many New Zealand women and children has been highlighted by the Ministry of Social Development. **“About two in five mothers (39%) had been a sole parent by the time they had reached 40 years of age, and close one in two mothers (46%) had been a sole**

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<sup>10</sup> Information obtained from the Ministry of Social Development under the Official Information Act.

<sup>11</sup> Figures from the Salvation Army show this had fallen to 212,000 by September 2007 (The Salvation Army Social Policy and Parliamentary Unit, 2008).

<sup>12</sup> The remainder were scattered through a host of minor benefits such as Unemployment, Widows, Emergency, etc.

<sup>13</sup> Calculated using 2006 census figures.

**parent by the time they reached 50 years of age"** (Dharmalingam, Pool, Sceats, & Mackay, 2004, p. 54).

Will moving people off benefits into employment improve their prospects? The figures provide no clear-cut answer: the number of unemployed and sole parents has fallen since 1999, but the number of Sickness and Invalids beneficiaries has continued to rise. This section looks at each of these in turn before considering WFF and its implications in greater depth.

### **Unemployment and Domestic Purposes beneficiaries**

The number of unemployment beneficiaries fell from 161,128 in December 1999 to 28,845<sup>14</sup> in March 2007, a drop of 82 percent. Over the same period, the number of DPBs fell from 110,285 to 97,142, a drop of 12 percent.<sup>15</sup> However, the composition of those remaining on an unemployment benefit (UB) or DPB has changed.

In December 2001, 31 percent of those on a UB were Māori, and 14 percent were 55-64 years old. In December 2006, these proportions had increased to 36.5 percent and 21 percent respectively.

A similar pattern can be seen in the DPB figures. In December 2001, 37.5 percent of DPBs identified themselves as Māori, and 25.6 percent were aged over 40. By December 2006, these proportions had increased to 40.4 percent and 31.1 percent. As with the unemployed, these increases were not seen in other categories recorded by the MSD. It is not clear why these changes have occurred, but it is arguable that they reflect both lower educational achievement and employer prejudices. A partial explanation of the ageing DPB population is that some mothers are taking care of older children who might have previously been in institutional care.

For the year ending 30 June 2005, approximately 44 percent of unemployment beneficiaries and 35 percent of DPBs left benefits for paid work. The net effect of cancellations and new applications between 2002 and 2006 was a fall from 343,000 to 280,000 working age recipients, suggesting that behind the raw numbers there is significant "churning" on and off and between benefits (Ministry of Social Development, 2005b).

### **Sickness and Invalids beneficiaries**

In contrast to the number of Unemployment and Domestic Purposes beneficiaries, the number of Sickness and Invalids beneficiaries has continued to rise (Figure 9).

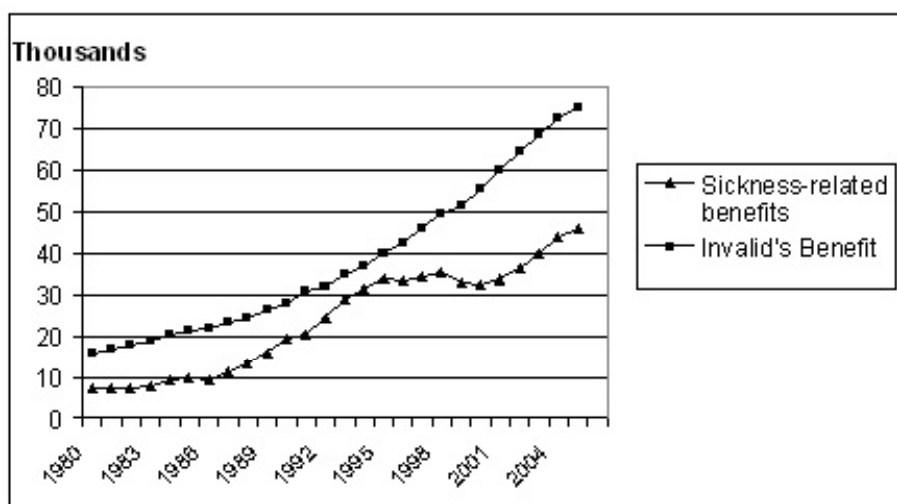
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<sup>14</sup> Note the number of beneficiaries differs from official unemployment figures derived from the Household Labour Force Survey. In March 2007 the HLFs official unemployed numbered 84,000 or 3.8% of the labour force.

<sup>15</sup> All benefit figures are from the Ministry of Social Development.

The composition of these two groups has changed in a similar manner to the unemployed and DPBs (see Table 1). For Sickness beneficiaries, numbers in all categories recorded by Work and Income fell, except for Māori and workers aged 55-64; Invalids benefits showed the same trend, with the other notable increase occurring among women, who went from 44.6 percent of recipients to 47.1 percent. These changes do not reflect changes in the general population.

**Figure 9: Number of sickness and invalids beneficiaries, 1980-2005**



*Source: Ministry of Social Development*

Given that the reforms implemented under the Social Security Amendment Act 2007 are substantially aimed at Sickness and Invalids beneficiaries, the increase in their numbers deserve some analysis. Yet little is known about what is driving this increase. According to the Minister of Social Development, the increase reflects “an ageing population” (Benson-Pope, 2007). The Ministry of Social Development conducted a study on people moving off Sickness and Invalids benefits, although this was restricted to a “descriptive exploration of the data” (Ministry of Social Development, 2005a) rather than an analysis of the reasons behind the increase. Nevertheless, the report did offer some suggestions, and it is likely that some combination of these factors accounts for a substantial portion of the increase in numbers. They include:

- An ageing population;
- Long hospital waiting lists (Helen Capill, President of the Combined Beneficiaries Union, interview with Radio New Zealand, 14 April, 2007);
- The trend for ACC to move people off ACC onto a Sickness benefit when they are deemed “vocationally independent”. Over time the number of

people receiving Sickness and Invalids benefits as a result of accidents has slowly increased;

- The continuing de-institutionalisation of people with mental and physical disabilities;
- More cautious employer responses to incapacity in retention and recruitment practices (Ministry of Social Development, 2005a).

The Ministry also noted other policy and organisational changes, including changes to the structure of the employment market and to skill levels, intensity and security of the available employment, and falling real wages (Ministry of Social Development, 2005a, p. 2) may also have had an effect.

**Table 1: Number of Sickness and Invalids beneficiaries, December 2001 and December 2006.**

	Number of sickness beneficiaries	% identifying themselves as Māori	% aged 55-64	Number of invalids beneficiaries	% identifying themselves as Māori	% aged 55-64
<b>Dec 2001</b>	36,191	22.7	17.4	61,369	18.3	30.0
<b>Dec 2006</b>	48,650	26.0	21.0	76,816	21.0	33.1

*Source: Ministry of Social Development, <http://www.msd.govt.nz/media-information/benefit-factsheets/index.html>.*

The data show that those remaining on benefits are older, and increasingly likely to be Māori and/or female. They may be caring for children or elderly or disabled family members, and lack the capacity or skills to hold down skilled full-time work. In other words, they are among the most disadvantaged members of the labour force.

### **Foodbanks and the persistence of poverty**

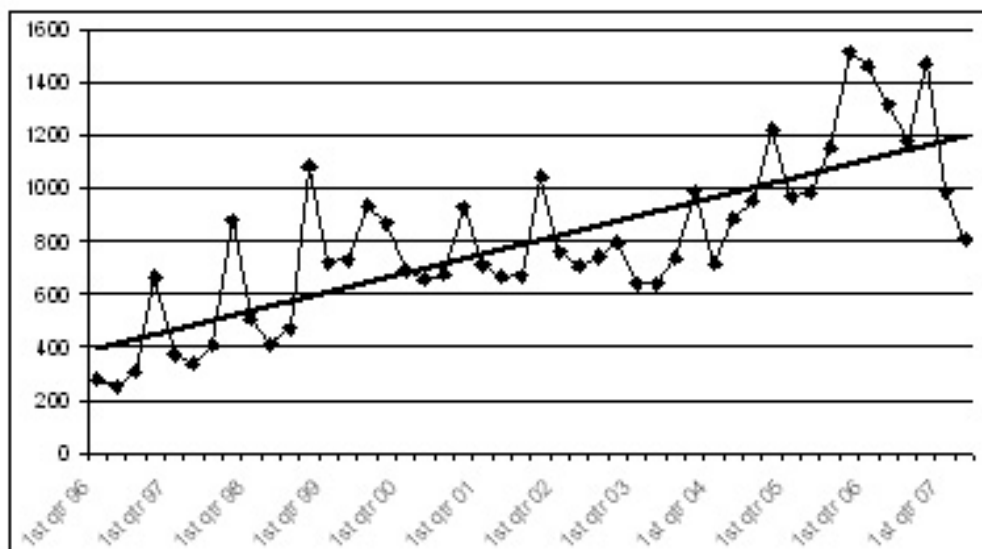
Foodbanks have been an integral part of New Zealand’s charitable sector since they proliferated after the 1991 benefit cuts. They are an indicator of poverty in a community, and their continued presence sixteen years later shows that poverty persists in New Zealand. In 2001 the then Minister of Social Development, Steve Maharey, stated that he wanted to put foodbanks “out of business” (Maharey, 2001), and said that the government’s “commitment to economic growth, social and community development, and the alleviation of poverty” was a necessary condition for this (Maharey, 2001).

Sadly, foodbanks have not gone out of business – indeed, the evidence suggests they are as busy as ever (Figure 10), despite strong economic growth. Beneficiaries



and low-wage earners are the main users of foodbanks, as they are most likely to have insufficient income to cover day-to-day expenses. Rent, utilities and transport,<sup>16</sup> and unavoidable medical costs, must be paid for first. Food is a discretionary expense which can be cut by purchasing poor-quality food, or omitted altogether in extreme cases.

**Figure 10: Number of food parcels distributed per quarter by Auckland City Mission, first quarter 1996 - second quarter 2007**



*Source: Auckland City Mission*

Auckland City Mission's records show that the biggest users of foodbanks are Māori and Pasifika women on benefits and their children (Wynd, 2005). Beneficiaries have a lower standard of living than the population as a whole (Ministry of Social Development, 2006b), and are over-represented in foodbank statistics, with approximately 80 percent of ACM's clients reliant on benefit income. While sole parents and single people make up the majority of foodbank users, approximately 25 percent are couples. Partnership is no guarantee of freedom from poverty. Nor is being in work. Approximately 12 percent (a figure consistent with other surveys) of the Auckland City Mission's clients are in paid employment, down from a high of 15 percent in 2003, but slightly above the 11 percent recorded in 2006. Reflecting their overall lower socio-economic status, Māori make up about 50 percent of foodbank users, with Pasifika making up a further 25 percent.

<sup>16</sup> Poor public transport and the need for security in an emergency mean that most beneficiary families run a car, even though it is a struggle. Not owning a vehicle limits job opportunities and may contribute to a sense of isolation (Witten, McCreanor, & Rose, 2005).

Recorded foodbank use probably under-represents the need for food in the community. One factor that may reduce people's use of foodbanks is fear of stigma: getting food from a foodbank is humiliating and intrusive. Most foodbanks have criteria, and limit the number of parcels per client. This necessary bureaucracy may be too high a hurdle for some. For those who are employed, the fact that foodbanks are only open during the day may also hinder access to assistance. Mobility problems due to disability or lack of suitable transport may also constrain access to a foodbank. There may be cultural and language barriers impeding access, for new migrants in particular. Finally, recorded use does not capture the many families who receive food parcels informally from local churches. For example, one church in Auckland "regularly feeds about nine families every week."<sup>17</sup>

It is not just low-income earners and beneficiaries who rely on foodbanks. As "part of the social landscape" (TV3, 2007), support from foodbanks seems to be increasingly relied on by the government to fill the gaps left by low incomes. "Work and Income have actually started giving referral letters to clients to come to the foodbanks and a map of the foodbanks in Canterbury..." (TV3, 2007). Private charitable support for the disadvantaged is a central tenet of neo-liberalism, concerned as it is with "getting the state out of people's lives". However, it is unethical for the government to assume the gap in family budgets will be filled by voluntary agencies. Leaving hungry children to the vagaries of private charity is not a practice befitting the twenty-first century.

According to the Auckland City Mission, the reason most often cited for needing to use a foodbank is the cost of food. After the cost of food, the next most often-cited reasons for needing assistance are car and travel costs, utilities and rent – all basic items that most people would expect to be covered by income. Although benefits are indexed to CPI inflation, essential items such as electricity are rising at a faster rate, and carve out an ever-larger proportion of limited budgets. The headline inflation rate to September 2007 was a modest 1.8 percent, but food prices in the same period rose 3.4 percent. This was largely due to increases in the cost of basics such as milk, meat and poultry, which rose 8.7 percent. Although petrol was down on its peak of the previous year, electricity prices increased by 6.2 percent, while water charges rose by 7.6 percent. Rising food and energy prices are not just affecting those on benefits. "People with low incomes are also starting to use the food bank. These people are saying that the rising cost of food, combined with petrol increases, is taking its toll..." (McKone, 2008). Price increases of this magnitude seem set to last into 2008, with unknown impacts from impending climate change policies.

It is concerning that foodbanks are still struggling to meet demand three years after the introduction of WFF (TV3, 2007; Whangarei Leader, 2007). As Diane Robertson

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<sup>17</sup> Personal communication, 2008.

of the Auckland City Mission observed: “we still have an enormous number of children who are effectively living in poverty in New Zealand because WFF has not extended to meeting their needs as well” (TV3, 2007). Although there is some evidence that New Zealand’s income gap is no longer growing at the same pace it did in the 1990s, it appears that Working for Families has not solved it.

### ***The stick: Working New Zealand, surveillance and sanctions***

The second part of the government’s welfare reform, *Working New Zealand* (WNZ), aimed to “increase opportunities for people to participate in the labour market, where work is an appropriate outcome” (Benson-Pope, 2006, p. 1). WNZ is aimed primarily at Sickness and Invalids beneficiaries, and in tandem with the Social Security Amendment Act 2007 provides a basis for replacing income support with a punitive work-first regime. An environment of almost full employment has allowed secure state provision of support for the disabled and sick to be replaced with exposure to labour market risk. WNZ also incorporates a surveillance and sanctions regime to ensure compliance.

WNZ continues the government’s focus on supply-side interventions in the labour market, with little apparent regard to the mismatch between the skills of those remaining on benefits and the need for a more skilled workforce. According to a cabinet paper, “Phase One [of WNZ] will focus on getting the right services and support in place to help people prepare for, make the transition to, and stay in work” (Benson-Pope, 2006). This suggests that education and training may be considered as options for unskilled workers, education being a significant contributor to increased earnings. However, this is not the case. The criteria for the Training Incentive Allowance have been tightened, while the new course participation assistance grant simply replaces an existing scheme. Moreover, it is only available for “short-term employment and training assistance programmes” (Benson-Pope, 2006, p. 5). Overall, the emphasis is on “enhancing expectations” and applying sanctions to those who do not meet those expectations.

Unless exempt, Sickness and Invalid’s Beneficiaries are subject to planning and activity requirements, which may include:

- engaging with Work and Income as required;
- undertaking planning for personal development and employment;
- undertaking a work-related activity (if agreed in the plan);
- reviewing plan as required;
- showing commitment to the plan;
- undertaking any activity or any rehabilitation the chief executive considers suitable for the beneficiary to improve the beneficiary’s work-readiness (Section 30, Social Security Amendment Act 2007).

This applies not only to beneficiaries, but to “every person who is the spouse or partner of a person who is the recipient of an emergency benefit, an invalid's benefit, a sickness benefit, or an unemployment benefit; and has a dependent child aged under 6” (Section 30, Social Security Amendment Act 2007). Only Invalid's Beneficiaries may be exempted “on the grounds of severe disability or sickness.” Beneficiaries who fail to comply with their obligations – obligations that in reality they have little control over – are subject to sanctions including the loss of up to 50 percent of their benefit (Section 32, Social Security Amendment Act 2007).

The cost of the extraordinary level of surveillance required was estimated at approximately \$100 million from 2007/08-2011/12. According to Treasury the proposals “do not offer value for money... A significant proportion of these costs are for benefit administration, such as systems changes and project management” (Benson-Pope, 2006, p. 31). Although one of the stated reasons for the changes was “future liability of \$25 billion to the State”<sup>18</sup> (Benson-Pope, 2006, p. 2), Treasury found “no evidence that the core package would deliver savings to justify the scale” of the \$100 million cost (Benson-Pope, 2006, p. 31). Because MSD has not publicly released the paper detailing the estimate of \$25 billion, it is unclear how this figure was calculated, and whether it is valid.

This anxiety over the cost of supporting the sick and disabled clearly contrasts with the lack of concern shown about the future cost of supporting the elderly. CPAG has estimated future pension costs at around \$315 billion.<sup>19</sup> While the government has set up the Super Fund to help support these payments, it will cover only a tiny fraction of the liability. Questions about whether we can afford universal New Zealand Superannuation<sup>20</sup> have, meanwhile, not been raised. Nor is there any surveillance of the elderly or questions as to their right to spend as they choose.

Sanctions for non-compliance with the obligations set out in the new amendment will be the same as those applied to sole parents under the 2005 amendment to the Social Security Act, namely a 20 percent benefit reduction for non-compliance and a further 30 percent reduction after four weeks of non-compliance; “where there are dependent children and each partner in couple is sanctioned, a maximum penalty of 50 percent of the couple's total benefit would apply to avoid undue hardship for all families” (Benson-Pope, 2006, p. 7). Sanctions also apply to the spouses of

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<sup>18</sup> This figure was estimated in 2005 by MSD and is the estimated cost of supporting the existing population of beneficiaries over the lifetime of their claims on Domestic Purposes Benefit, Sickness Benefit and Invalid's Benefit.

<sup>19</sup> 450,000 existing pensioners plus future payments to 40-65 year-old baby boomers, 2007 dollars.

<sup>20</sup> This may well change if future governments decide tax breaks for super schemes such as KiwiSaver and universal superannuation payments cannot be sustained.

beneficiaries, who must also be available for employment, even if they are caregivers to their sick partners.

The new regime assumes a level of mobility and functionality that the sick and disabled, despite their best efforts, simply may not possess. It is the “stick” that stands ready if the Working for Families “carrot” proves ineffective, and has the potential to create considerable stress for Sickness and Invalids beneficiaries. The former Minister of Social Development, David Benson-Pope, has stated that this is what the sector asked for, but the Assembly of Peoples with Disability has described the legislation as “mean-spirited, based on a jaundiced view of human nature [that] will have inimical consequences for all beneficiaries, particularly disabled people,” and that it is “unacceptable that disabled people on benefits are treated like workshy scroungers” (DPA New Zealand, 2007).

One aspect of the new legislation has passed almost completely without comment, and reinforces CPAG’s concern that the emphasis on work is undermining other social support services. Sickness and Invalids beneficiaries whose illness precludes them from working effectively get to jump the queue to access medical care if it will get them back into the workforce. Designated PATHS<sup>21</sup> (Providing access to health solutions), it is run by WINZ and is gradually being rolled out across the district health boards. The WNZ cabinet paper proposed a targeted health intervention:

*...for people wanting to return to full-time employment who require a single health intervention to enable them to return to work but are unable to access that intervention through the public health system within three months. To be eligible, people need to also show they have a job lined up.*

(Benson-Pope, 2006, p. 22)

The message is clear: if you have a job you get more money to help look after your children and get preferential access to medical treatment. If not, the government will “help people to support themselves and their dependants while not in paid employment” (Section 1A, Social Security Act 1964, 2007 reprint). There is no commitment to providing an adequate income, or to supporting the “health and general welfare of the community” (Social Security Act, 1938).

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<sup>21</sup> PATHS has been in place since 2002/03 but WNZ seeks to extend it.

## ***Is replacing welfare with paid work the answer to child poverty?***

Child poverty is not solely a New Zealand phenomenon. Most governments in the OECD, including New Zealand's, have made commitments to reducing child poverty and social exclusion (Whiteford & Adema, 2006). Because of the strong correlation between benefit income and child poverty, child poverty – and poverty generally – is often framed as a welfare problem, not an income problem. In Anglo-American economies, welfare-to-work policies<sup>22</sup> have been used to counter the supposed pathologies associated with welfare, notably “benefit dependency”. “Dependency” theory gives rise to two distinct but related assertions. The first is that being on a benefit robs recipients of their work ethic. The second is that benefits, especially if they are “too high,” create poverty traps that condemn recipients to a life of misery and hardship. The concept of “dependency” – ill-defined and unproven – suits politicians of all stripes:

*The reform of our social support system is necessary for the following reasons:...a number of individuals and their families do not currently have the same opportunities to participate in the labour market and society as others, and their living standards are compromised by long-term benefit dependency.”*

(Benson-Pope, 2006)

and

*We also have a serious and growing problem with long-term welfare dependency...Long-term dependency robs people of confidence, motivation and aspiration. Ultimately, it robs people of a stake in their own society.*

(Key, 2007)

Dependency is a term that focuses “on the behaviour and values of those who are dependent on a benefit. The focus is invariably negative” (O'Brien, 2005). Assumptions about the moral laxity of beneficiaries, and the poor generally, are as old as civilisation. “While the probability of escaping from poverty or benefit decreases with time, the simple assertion that this is evidence of dependency, of the

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<sup>22</sup> Welfare-to-work covers a range of policies from the very coercive to the voluntary. A discussion of this can be found in (Theodore & Peck, 1999). Welfare to work policies are also referred to as active labour market policies. These vary as between states, with the Scandinavian approach being very different to that of countries such as New Zealand and the UK. A discussion of this can be found in (O'Brien, 2007).

morally enervating effects of being on benefits, receives little support” (for example, Ledemel and Trickey, cited in O'Brien, 2005, p. 11).

Other recent research also casts doubt on the idea that beneficiaries necessarily beget beneficiaries. Using recent data from across three generations Page (2004) found that “most women who experienced welfare during childhood do not become dependent adults,” contradicting “the common belief that welfare dependence is routinely passed across generations” (Page, 2004, p. 242). Although the study found that “the probabilities of experiencing poverty, single motherhood, and welfare are greatly influenced by family and community background,” there was no causal link, and the correlation observed “may be nothing more than evidence of an intergenerational correlation in income” (Page, 2004, pp. 226-227). The study also notes that welfare is only available to the already poor: to say that welfare “causes” dependency is to overlook the fact that recipients have no other source of income, and throws no light on how dependency is supposed to be transmitted from one generation to the next.

Focusing on individuals’ “dependency” simply serves as an ideological mask to divert discussion from the substantive issue, which is a skewed income distribution that gives rise to the low incomes that are at the heart of New Zealand’s child poverty statistics.

### **Death of the work ethic?**

It is often argued that being on a benefit provides recipients with no incentive to obtain paid work. This is based on the populist belief that people on benefits are lazy, that being on a benefit is a lifestyle choice and that people need to be made very poor in order to motivate them to work.

The policy response in liberal welfare states such as New Zealand has been to reduce benefits and introduce policies to “make work pay” and, where possible, to replace welfare with job training and other activities.<sup>23</sup> This is the reasoning behind making the In-Work Tax Credit available only to families who are not on benefits. Yet research from Australia concludes that even among the long-term unemployed, “the work ethic is not under threat of extinction” (Marston, 2007). Research from Canada, Denmark, Finland, the United Kingdom, the United States and New Zealand all support this conclusion (Higgins & Dalziel, 2002, p. 168). Recent research by the U.S. Department of Labour shows that 54.4 per cent of New Zealand’s 15 to 19-year-olds are in paid employment, the fifth highest rate of the 20 countries surveyed (New Zealand Herald, 2007). There is no more evidence that lazy parents necessarily

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<sup>23</sup> This set of policy responses has been dubbed “the new paternalism”. See Marston, (2007) and Stoesz (2000).

produce lazy and bored children, than there is that working parents produce hard-working children.

The soundest rebuttal of the “dependency” thesis comes from the benefit data itself. The strong labour market in the early 2000s allowed thousands of families to leave welfare, find jobs and/or increase their hours of work. The number of unemployed has fallen dramatically since 2000, as has the number of DPBs. Despite the movement of many beneficiaries into paid work, the proportion of children in severe and significant hardship (Figure 7) actually increased 36 percent between 2000 and 2004 (Ministry of Social Development, 2006b). For many families, it is clear that work alone has not been enough to escape poverty.

Still, reformers remain fixated on the work ethic of welfare recipients. In English-speaking countries, and the European Union, receipt of welfare is increasingly tied to employment, whether mandatory (U.S.) or, as in New Zealand, worktesting and “development activities”. This requires a great deal of very expensive oversight by the state, as noted above. The high levels of surveillance and monitoring would be unacceptable to any other sector of society. The “obligations” that are such a strong feature of the rhetoric and official documents fall almost exclusively on recipients; recipients have few rights of appeal against decisions made by caseworkers. Harassing beneficiaries into work is likely to worsen the situation of families already experiencing the stress and exclusion of poverty.

### **Do high benefit levels create a poverty trap?**

The argument that high benefit levels create a disincentive to work, or poverty trap, cannot be sustained on the New Zealand evidence. Far from being high, benefit levels have fallen relative to wages since the late 1980s. This on its own has not been successful in moving beneficiaries into paid work, but has been successful in increasing poverty.

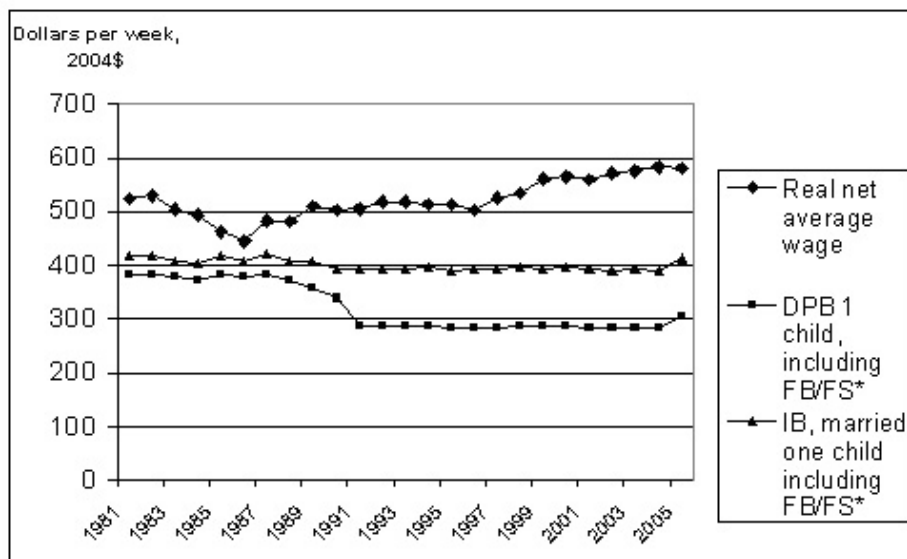
Still, it is tempting to point to reliance on benefits as an explanatory factor for poverty. Anti-welfare campaigners often assert that welfare is the meddling state creating “poverty traps” and conspiring to keep recipients unemployed and poor. For example: “Just leaving people on benefits, excusing them of all responsibility, is to ignore their potential and condemn them to a life of poverty...” (J. Collins, 2007). The implication is that reducing or getting rid of benefits will lift families out of poverty. However, it defies common sense to suggest that taking away the incomes of the unemployed and those unable to work will somehow make them better off than giving them a benefit that allows them to meet basic living costs. While no political party is prepared to suggest cutting benefits completely, linking benefit receipt with poverty creates the necessary justification for not increasing the existing low levels of income support, and making it more difficult to receive and retain.

Figure 11 shows that real benefit levels remained unchanged through the 1990s, after falling sharply in 1991. This is in contrast to wages, which have been rising



since the late 1990s, after a slight fall in 1997-8 that followed a period of little growth in the 1990s.

**Figure 11: Real net benefit rates and real net average wage rates, 1981 to 2005**



*Source: Cotterell, (2007)*

\* *FB/FS: Family Benefit/Family Support (now the Family Tax Credit)*

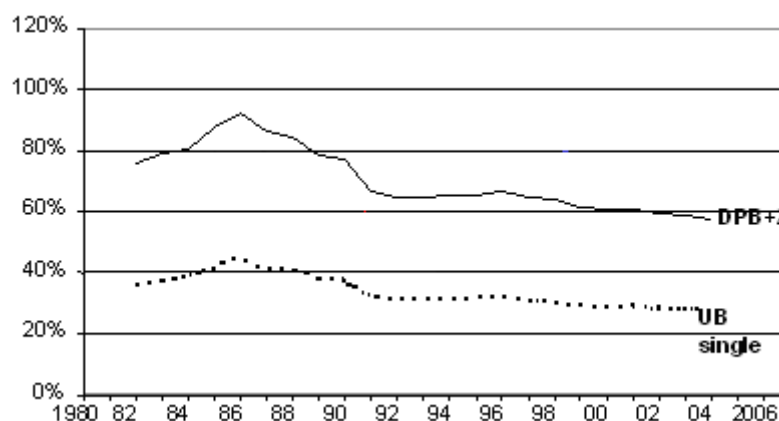
Between 1996 and 2007, real median net wages increased by 13 percent, about \$78 a week.<sup>24</sup>

More revealing are net benefit rates relative to net average earnings (Figure 12). From a peak of just over 90 percent of the average wage in 1986, the relative income of a DPB recipient with two children has since fallen steadily, and is now less than 60 percent of the average wage. In the late 1990s, relative income for beneficiaries rose slightly, but this was because real wages fell during this period.

There is little evidence that people become “trapped” because benefit levels are too high. Rather, as Lorentzen (2006) notes, stays on welfare are shortest in countries where welfare support is most generous. “Generous levels of assistance and support...do not result in a permanent poverty trap and extended stays on welfare” (Lorentzen, 2006). Similarly, research in the U.S. found that “the global quality of a state’s welfare programs is often an independent predictor of child poverty. States with the most generous, inclusive and supportive welfare programs have done the best job of lowering and containing child poverty” (Rodgers & Payne, 2007).

<sup>24</sup> In contrast, the CEO of Ministry of Social Development was given a 14% increase in his package of \$430,000 pa, so gaining, for 2007 alone, more than \$1,000 extra per week.

**Figure 12: Net benefits relative to net average wages, UB, single, and DPB with two children**



*Source: Perry, (2007b)*

Poverty traps arise from *low* benefit levels, because these give people little or no chance to accumulate savings or assets. They also arise from high abatement rates on income earned while on benefit. In New Zealand, an unemployment or sickness beneficiary who earns more than \$80 gross per week faces an effective marginal tax rate (EMTR) of 92.3c on every additional dollar earned. For invalids and sole parents, the EMTR is 52.3c in the dollar for earnings between \$81 and \$180, and 92.3c thereafter. The \$80 threshold was introduced in the early 1980s and applies to singles and couples alike. If it had kept pace with inflation, it would now be at least \$130. If couples were recognised as two individuals, their threshold should be \$260. Raising these thresholds would be the logical way to encourage beneficiaries to find and retain work, yet no reform to date has dealt with this fundamental issue. Instead, Treasury has cautioned against raising the thresholds, on the grounds that it would “significantly increase costs” (The Treasury, 2006). Yet such basic, sensible measures would appear to be more in keeping with a commitment to dealing with child poverty than coercive, expensive and counter-productive attempts at surveillance and control. Likewise, as discussed in the next section, by not dealing with this problem directly the government has needed to expand a raft of clumsy *de facto* welfare measures in the tax credit system.

### ***Is there another option?***

Evidence shows that beneficiaries leave welfare of their own accord when they can, and generous welfare regimes can be the most effective in assisting people back into the workforce. Yet the official documents and papers outlining the rationale for change in New Zealand assume that beneficiaries, including those have no choice but to be on a benefit, need to be motivated to leave welfare, while ignoring child poverty. The net result is a set of reforms which not only place more of the burden of

poverty on the shoulders of the poorest families, but also fails to acknowledge, let alone address, its underlying causes.

The rhetoric around welfare reform, stripped of its double-speak, carries a simple message: the only valuable contribution a person can make to society is an economic one. Yet the economy continues to lose jobs offshore, and is vulnerable to an increasingly volatile global economy (Wade, 2006). As with the costs of global warming, it is time the debate broadened to consider what sort of future we want for our children and grandchildren. In all the welfare debates and reforms, what is missing is a commitment to meaningful full employment, decent wages, and adequate care for children, the sick and the injured. New Zealand's welfare reforms are mean-spirited, lack vision, and risks further eroding our social cohesion.

## **6. Working for Families**

**Susan St John & Donna Wynd**

Reform of a raft of complex family assistance payments in 1986 introduced a simple system in which children, whether in families on benefits or in work, were treated the same. From 1986, assistance for children comprised Family Support, a payment that varied with parental income, and Family Benefit, a universal payment of \$6 per child per week. The latter was the remnant of a once-generous measure that had helped keep child poverty levels low in the decades following World War Two.<sup>25</sup> In 1991 the Family Benefit was added to Family Support, so that all child financial assistance became income-tested against joint parental income.

Family Support was paid to the caregiver on the same basis, regardless of whether the families of the children concerned were on benefits or earned low incomes. Unlike welfare payments, however, there was no automatic adjustment for inflation and income thresholds were rarely increased. Over the 1990s the real value of Family Support was eroded at the same time as child poverty emerged as a major social issue (St John & Craig, 2004).

In 1996-1998 there was some catch-up for inflation, but the bulk of the increased payments did not go to all low-income children. While the weekly per-child payment was increased by \$20, in a regrettable move \$15 of this increase was separated off from Family Support, and was denied to children whose parents were on a benefit.

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<sup>25</sup> A notable feature of the universal child benefit was that it could be capitalised to enable the purchase of a first home. See St John & Craig (2004) and CPAG (2003) on the benefits of universal payments.

This \$15 per week per child payment was initially called the Independent Family Tax Credit (IFTC), reflecting its role as a reward for not being “dependent” on the state. In 1996 the IFTC was renamed the “Child Tax Credit” (CTC), and became part of a raft of similar tax credits called Family Plus, which was essentially available only to families not on a benefit.

In practice, the CTC denied beneficiary families an overdue inflation catch-up in 1996; meanwhile the purchasing power of their Family Support continued to fall (St John & Craig 2004). Debates recorded in Hansard show that Labour politicians recognized the damaging discrimination which the CTC introduced. They promised to reverse it by adding the CTC to Family Support if they were elected.

By the late 1990s, child poverty in New Zealand had become an embarrassment. Yet when elected in 1999, the Labour Government did nothing either to increase Family Support or to remove the discrimination. They did, however, acknowledge that child poverty was a major problem, and in 2002 vowed to eliminate it (Ministry of Social Development, 2002). Yet it was not until the 2004 budget that “Working for Families” (WFF) was announced, with a two-year phase-in beginning in 2005 for increased family assistance.

WFF was a package worth over a billion dollars. It included a range of improvements such as increased Accommodation Supplement and childcare subsidies. The major thrust, however, was a very significant increase in financial assistance for children in “working families”.

CPAG provided a detailed analysis of this package in late 2004, welcoming the catch-up spending, but expressing alarm that many families in the poorest circumstances gained very little (St John & Craig, 2004). The package on the surface appeared to increase Family Support significantly for all, but the government had taken the opportunity to use this extra assistance to offset a range of cuts to benefits, so that many families were left simply “no worse off”.

In addition, these same families were excluded from the new In-Work Tax Credit (IWTC) that replaced the CTC from 1 April 2006. The IWTC was much more generous than the CTC, at \$60 a week for families with up to three children and an additional \$15 a week for the fourth and subsequent children. The IWTC marked a significant policy reversal, in the light of Labour’s previous outcry over the CTC and their stated commitment to treating all low-income children the same, regardless of the source of their parent’s income.

Criticism of the WFF package in 2004 was not well-received politically. The argument that the poorest of poor children had been left out fell on deaf ears, and the government claimed to have no money left to help beneficiaries further. Then, in a surprise show of pre-election generosity, in 2005 they found an additional \$500m to augment the WFF package. However, the additional money went only to families earning more than \$27,500, well above benefit levels.

The 2005 package raised the threshold for the IWTC's joint parental income test to \$35,000, and reduced the rate of abatement from 30 percent to 20 percent. These moves could reasonably be justified, as the previously higher effective marginal tax rates on low incomes were seen to counter the work incentive thrust of the government's intentions. Nevertheless, they were implemented in spite of the fact that child poverty had not yet been addressed for families on benefits. If work incentives were the objective it was also unfortunate that the opportunity was not taken to revisit the design of the In-Work Tax Credit, or its ongoing relevance as a work incentive.

By 2007 the full Working for Families package was implemented, with parameters as set out in Table 2. The extra income received by low- and middle-income working families is a welcome recognition of the costs of raising children and should impact positively on measures of hardship among working families. But what of other families?

**Table 2: WFF weekly support from 1 April 2007- children under 13**

	<b>Weekly Support</b>
<b>Family Support, first child</b>	\$82
<b>Family Support, each additional child</b>	\$57
<b>IWTC One to three children Plus \$15 for each additional child</b>	\$60
<b>Threshold, joint income</b>	\$35,000
<b>Rate of abatement</b>	20%

CPAG estimates that approximately 185,000 children are in families who are not eligible for the IWTC, and remain in some degree of hardship, with about 150,000 of them in severe and significant hardship.<sup>26</sup> For this group there is little respite in view,

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<sup>26</sup> See Section 4 for a calculation of this figure.

only exhortations for their parent or parents to get a job, regardless of how inappropriate or impossible that might be.

### ***The Carrot: The In-Work Tax Credit***

*“...‘yes’ incentives matter. That’s the easy part of economics. Designing incentives matters more. That’s the hard part.”*

(Easton, 2008)

The In-Work Tax Credit is the “carrot” of the government’s welfare reforms. It is designed to boost the rewards for parents moving from benefits into paid work, that is, to “make work pay”. At \$60 per week for up to three children, plus an additional \$15 per week per child thereafter, it is a generous payment, and would appear at first glance to be an incentive to reattach to the workforce.

Policy on the IWTC appears to have been influenced by the British tax credit system; but since 2003, Britain’s child-related assistance has not differentiated between working and non-working families (St John and Craig, 2004). Their per-week child-related payments comprise a universal child benefit and a child tax credit, paid for all children on the same basis, regardless of the source of their parents’ income. The UK Working Tax Credit is quite different to the IWTC – it is aimed at the transition to work and abates from a low level at a high rate. It makes no reference to children; it is available to all low-income workers; and it is paid to the worker, not to the principal caregiver of the child.

Like the CTC before it, the IWTC conflates policy goals of child-related income security with adult workforce participation. It is a child-related payment first and foremost. In every respect except in who gets it, it is just an addition to Family Support, adding on top of it, and abating after Family Support has disappeared. Perhaps in an attempt to reinforce the message that the IWTC is more clearly a work incentive, claimants must now meet the weekly work criteria of 30 hours for a couple and 20 hours for a sole parent, a condition not required for the CTC.

The “work incentive” is paid to the caregiver of the child (who may not be “in work”), not the worker. The government also appears oblivious to the irony that, once in receipt of the IWTC, many families in two-parent households can afford for the primary caregiver, or both parents, to work less. For example, a case in a recent MSD newsletter cited Setoga (Toga) and Liz Tofilau, who live with their three children aged six, three and one, in Petone. Toga works for the Salvation Army centre in Wellington as a youth worker. Liz is an early childhood teacher in Lower Hutt.

*“Tax credits and some childcare assistance have made it possible for Toga to reduce his working week from five to four days, and spend one*

*day a week studying towards a degree in health and psychology at WelTec...The extra funds make it possible for Liz to spend more time with the children while they're young. This year, the whole family went to Samoa. It was the first time in years they had been able to go anywhere as a family."*

(Ministry of Social Development, 2007)

Improved family work-life balance for some families due to fewer hours worked is, on the whole, a laudable outcome of the IWTC. However, the conditions under which it is available fail to take into account potential serious work-life *imbalances* among people who are already worse off. The 20 hours paid work criterion is particularly harsh for a sole parent who is already doing the job of two parents (The Rotorua Peoples Advocacy Centre (RPAC) Inc., 2007). In contrast, a two-parent family can have one full-time caregiver at home while the other works the minimum of 30 hours.

Not being able to share the workload was a significant issue for the majority of sole parent participants in a recent study (The Rotorua Peoples Advocacy Centre (RPAC) Inc., 2007). Many participants noted that the sheer relentlessness of doing everything on their own – felt most acutely by those with two or more children – was a contributor to rising stress levels, deteriorating mental and physical health, depression and in some cases hospitalisation or suicidal thoughts. As one participant, "Bridget," put it:

*"It's relentless – having no break, no let-up from two human beings constantly needing something from you. It's always just me and them. I subscribe to the 'it takes a village' philosophy...unfortunately, I don't have that village."*

(The Rotorua Peoples Advocacy Centre (RPAC) Inc., 2007, p. 24)

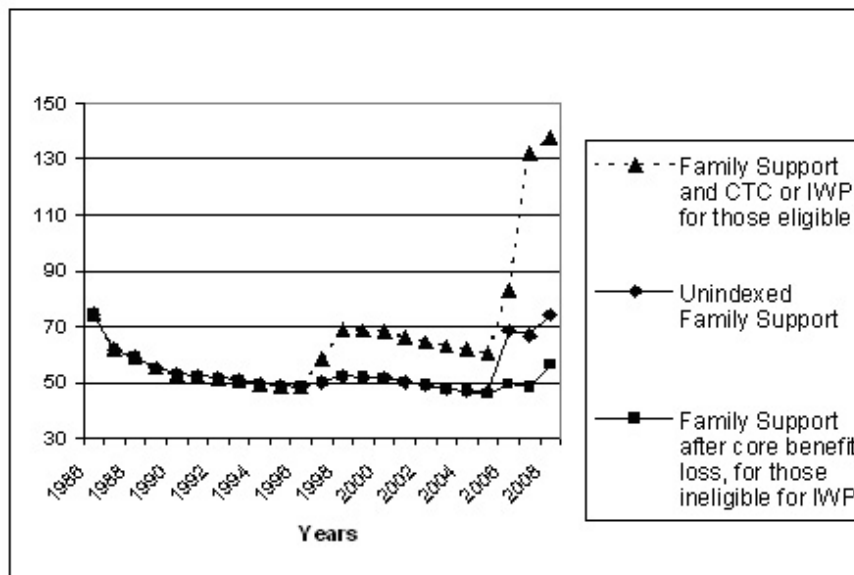
The rules of independence from the state are the largely the same for the IWTC as for the CTC. While the worst case of exclusion for "workers" on accident compensation has been removed, it is only for those who have had an accident after 1 January 2006. Likewise, caregivers receiving New Zealand Superannuation can now get the IWTC, but only if they meet the work requirements. Otherwise, the discrimination begun by the CTC remains, as it does for children in families receiving student allowances, and sickness, sole parent and unemployment benefits.

Because of the IWTC and other changes introduced as part of the WFF package, a much bigger gap has opened up between families "in work" and those not "in work". Using the one-child low-income family to illustrate, Figure 13 shows how the changes in 1996 and WFF affected the real spending power of family assistance for those families who qualified for the CTC/IWTC, and those that did not.

Not shown in Figure 13 are WFF's changes to third-tier assistance, in particular the Special Benefit. Over 80 percent of all children supported by a benefit are living in sole-parent families. These children were directly affected by the changes. In 2004,

just over 50 percent of Special Benefit recipients were living with at least one dependent child under the age of 14, and 90 percent of these were sole parents. In 2007/8, changes to hardship provisions and cuts to core benefits for those with children were expected to save \$237m (St John & Craig, 2004).<sup>27</sup>

**Figure 13: 1-child maximum real family assistance 1986-2008 (\$2004)**



*Source: St John & Craig, (2004)*

In defending these changes, the government argued that "...great care was taken in developing Working for Families to ensure that nobody was worse off as a result of the changes" (Mallard, 2004). In a time of greatly improved real redistribution to working low-income working families, to be simply "no worse off" in nominal terms increases social exclusion and entrenches the relative poverty of the poorest children.

The Māori and Pacific Island population of New Zealand are also disproportionately disadvantaged by WFF, as they have a younger demographic structure and a lower socio-economic status than the general population (Wynd, 2006). Thus it can be argued that, in effect, the IWTC treats children of different races differently. These ethnic groups have already experienced a much larger decline in their living standards between 2000 and 2004 than the rest of the population (Ministry of Social Development, 2006b).

<sup>27</sup> In contrast to these clawbacks from the poorest, in 2005 the government extended family support to families further up the income ladder at a cost of \$500 million.



While there has been little in-depth evaluation of the package to date, it is likely that the IWTC will prove hard to administer, and take-up and compliance for low-income families will be complex. If and when jobs are lost in the next recession, or a family member falls ill, a sharp drop in living standards for children whose parents then need to access a main benefit can be expected. The remodeled welfare state increasingly serves to provide a minimal subsistence safety net rather than a social security safeguard. In the past, when parents needed to go onto a benefit, their Family Support could usually be expected to increase as a result of their lower income. Now, because the IWTC is tied to paid work, family assistance is lowered when income falls, thus failing to provide a cushion that might protect the income needs of children when their parents fall on hard times. Yet, the evidence shows children of beneficiaries require more assistance, not less, to help escape the economic and social exclusion that undermines their future.

Over time, the danger is that real increases in work-related child payments will be achieved at the expense of real increases in Family Support, and the focus on reducing child poverty will be lost. Indeed, the fact that poverty appears no longer to rate a mention in official documents dealing with changes to social security legislation suggests that this has already happened.

The effectiveness of the IWTC as a work incentive in practice has yet to be evaluated, but a lump-sum payment based on minimum hours worked is probably not capable of influencing extra work effort for most families. Even if it did provide a work incentive, suitable work has to be available, and families must have the capacity to take up that work. If these conditions are not met, it would seem to be a highly uncertain mechanism to rely on to eliminate child poverty.

Recent research has thrown into doubt the value of work incentives for achieving any long-term benefit. In Canada an experiment randomly divided a group of welfare recipients into two. One group was left as in the existing welfare regime, the other were put on a self-sufficiency project (SSP) which gave them generous incentives to get full-time work. The SSP group were given a year to obtain full-time employment. The scheme also gave participants an earnings subsidy for up to three years. It had 5,600 participants, each with their own special circumstances, which made evaluation difficult. The experiment was investigated by David Card, based at the University of Berkeley, and New Zealander Dean Hyslop who works for the NZ Treasury (Card & Hyslop, 2005).<sup>28</sup>

New Zealand-based economist Brian Easton notes that the study's findings about the long-term effects of the SSP are salutary (Easton, 2008). In summary, they are zilch.

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<sup>28</sup> Their paper was published in the journal *Econometrica* and awarded the prestigious Ragnar Frisch prize for the best econometric article published in the last two years' issues.

Certainly the scheme gave some of the eligible beneficiaries an incentive to get a job earlier than those who had no such incentive. But after the scheme ended, their labour force participation was much the same as those who were not on the program. More of both groups were employed than when the scheme started, but those without the incentive took longer to get a job because the net cost of job-seeking was higher for them. The substantial public spending on the incentives to get people off the scheme worked in the short run, but gave no long-term employment return.

Even more disappointing, the program seems to have done nothing to improve the incomes of subsidised workers. One might have expected that getting a beneficiary into a job should trigger an improvement in the long run. Because they got their jobs earlier, subsidised workers should have been better paid than the unsubsidised by the time the scheme ended.

Card and Hyslop were unable to find any such effect. Instead, they found that both groups were largely on or near the minimum wage, and there was no significant difference between the two groups. Formally, the study concludes that the incentives had an effect, but only in the short term while they were operating. There were no long-term gains in terms of higher rates of employment or increased earnings. The public spending was a subsidy, not an investment in good quality, long-term jobs (Card & Hyslop, 2005).

Similarly, a study in Minnesota that aimed to “make work pay” by allowing families to keep more of their benefit when they worked, found that the improved earnings of most single-parent families were not maintained. The study also found that for two-parent families, the scheme reduced employment among second earners, thus did not operate as a work incentive for some couples. While the study found some effects, in particular improved primary school performance, may persist for the most disadvantaged recipients, these gains did not come cheaply, with Minnesota spending more money than it would have under the old welfare regime (Gennetian, Miller, & Smith, 2005).<sup>29</sup>

This does not mean we should give up trying to get beneficiaries back into the workforce as early as is practicable. Almost certainly there are social benefits for them and society. But it seems likely that incentive schemes such as the IWTC are not particularly effective at improving employment prospects and earnings in the long term. This, it seems, will require greater efforts to ensure decent jobs and suitable child care are available, and that people have the necessary skills to take them. This commitment has been largely absent from WFF and other reforms.

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<sup>29</sup> The Minnesota Family Investment Program was conducted under the legislation that replaced Aid for Families with Dependent Children (AFDC), which had been in existence since 1935. The new regime, Temporary Assistance for Needy Families (TANF) was designed to encourage parents into work by making welfare less generous and harder to get.

## **Name changes**

There are two other parts of the WFF package that need mentioning, even though they are numerically much less significant than either Family Support or the IWTC. These are the Parental Tax Credit and the Family Tax Credit. However, discussion has recently been complicated by name changes that took effect in late 2007.

Apparently the names were changed to make it clearer that child-related payments were not welfare, but tax relief. For parents trying to negotiate their way around the tax credit system, the name changes are likely to cause further confusion. For researchers writing in a historical context, the name changes have been daunting. A more ill thought-out selection would have been hard to devise (St John, 2007b). The name changes are detailed in Table 3 below.

**Table 3: Name changes to family assistance payments**

<b>Old name</b>	<b>New name</b>
<b>Family Support</b>	Family Tax Credit
<b>In-Work Payment</b>	In-Work Tax Credit
<b>Family Tax Credit</b>	Minimum Family Tax Credit
<b>Parental Tax Credit</b>	Parental Tax Credit

*Source: IRD, <https://interact1.ird.govt.nz/forms/famcalc2008/>.*

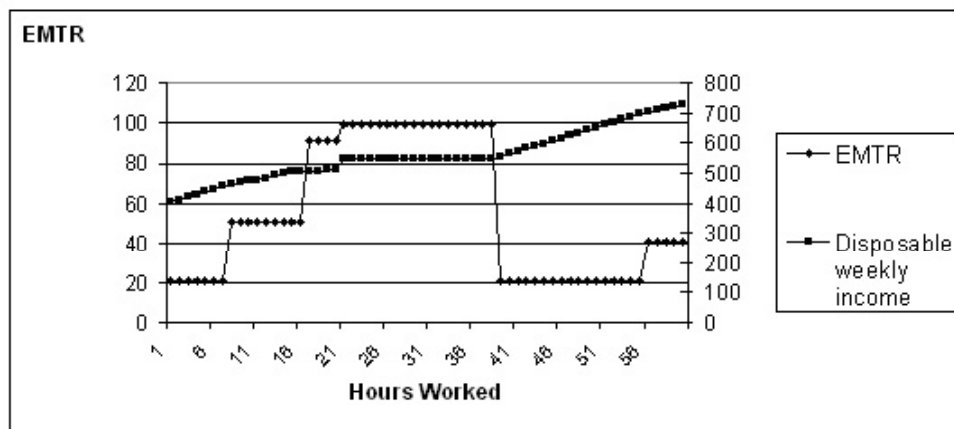
### **Minimum Family Tax Credit**

The minimum family tax credit (MFTC) is not child-related, but is designed to provide a guaranteed minimum family income for those working the required number of hours. The level in 2008 is \$22,119 gross (\$18,044 net) before tax, regardless of the composition of the family, with Family Tax Credit (the old Family Support) and the In-Work Tax Credit paid on the top of the net guarantee. The MFTC is a top-up that is reduced by one dollar for each additional dollar of disposable income earned. Thus it resembles a welfare benefit. The use of this top-up has increased under Working for Families.

Families coming off benefits may need to access the Minimum Family Tax Credit in order to attain a level of income above that of a benefit plus part-time work. Figure

14<sup>30</sup> shows the disposable income and the effective marginal tax rates faced by a single parent on the minimum wage as a function of the number of hours worked.<sup>31</sup>

**Figure 14: Disposable weekly income (RHS axis) and effective marginal tax rate for single parent with two children**



*Source: S. Poletti*

Moving from benefit and working 19 hours per week at the minimum wage and then working 20 hours and coming off the benefit and getting the MFTC results in an increase in disposable income of around \$30 a week. However, there is no incentive for the single parent to work any more than 20 hours a week until they can work around 38 hours a week, because the Minimum Family Tax Credit abates at 100 cents for each additional dollar of net income, resulting in no increase in income for the additional hours worked.

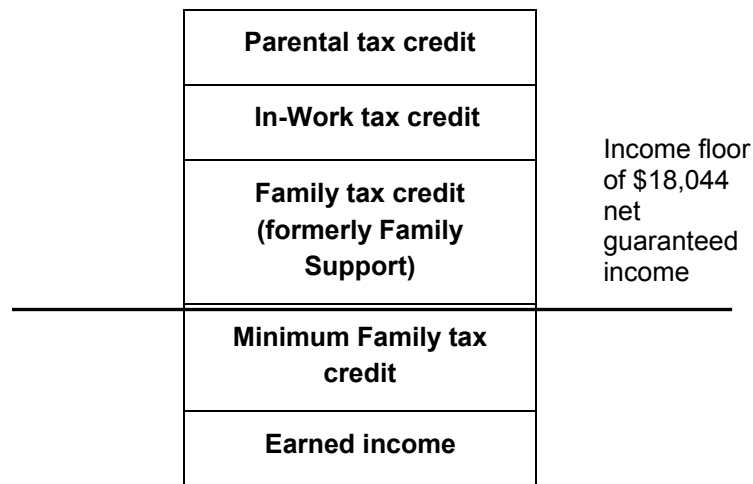
It is also important to understand that while the move from being employed for just below 20 hours a week and being in receipt of a benefit, to being employed for 20 hours and not receiving a benefit, is technically a move off welfare to “independence,” in reality it is no such thing. The amount of assistance provided by the state in each case is almost exactly the same, if not more, for being in work. The main difference is that the name for the assistance from the government has changed.

The house of tax credits is illustrated in Figure 15. The tax credits above the minimum family income line are the means by which additional children are recognized.

<sup>30</sup> This calculation updates Johnson (2006) using current data from Inland Revenue.

<sup>31</sup> The Minimum Wage is \$11.25 an hour, although it is due to rise to \$12 an hour in April 2008. For higher wages the figure would be more compressed towards the left.

**Figure 15: House of tax credits**



It is difficult for families receiving family assistance to understand the impact of earning more income because they are given a total WFF tax credit amount on their tax reconciliations, even though different credits are treated differently for abatement purposes. The severe abatement of the MFTC is of concern, as families may find at the end of year that they have to repay, dollar for dollar, any unanticipated income they have earned.

Information supplied under the Official Information Act to CPAG from the IRD shows that for the year ended 2005, 137,260 families were assessed for, and required some adjustment of, their WFF tax credits. While 55 percent were either balanced or owed under \$50, 45 percent of WFF recipients were in debt and may have been required to repay some of their excess WFF tax credits.

Data for 2006 shows that 147 out of 588 WFF recipients who did not receive any income-tested benefit were in debt due to the MFTC reconciliation process, as were 71 out of 313 who did receive an income-tested benefit at some time during the year. That is, nearly a quarter of families who were getting the MFTC had to repay some at the end of the year.

It can be expected that over time, more families will be caught up in this trap, because accessing the MFTC is the only way that many sole parents can afford to

come off the benefit.<sup>32</sup> The MFTC was received by only 960 families in the year ended March 2006, but this had jumped to 2,790 in the year ended March 2007, showing the increased importance of this benefit for those moving off the DPB (Inland Revenue, 2007).

The first IRD evaluation of WFF acknowledges the difficulty of assessing the work incentive aspect of the IWTC (Inland Revenue & Centre for Social Research and Evaluation, 2007). While they found that “nearly two thirds of families agreed that the In-Work Tax Credit is a good incentive to stay off a benefit” (Inland Revenue & Centre for Social Research and Evaluation, 2007, p. 38), this is a long way from proving that it is a sensible and effective work incentive. On the contrary, it simply serves to illustrate the gap between those who are able to work and those who cannot. **Making life more miserable for beneficiaries in no way improves their ability to come off a benefit.**

The report cites the reduction in DPB numbers since the introduction of the IWTC as evidence that “the in-work tax credit ... appears to be making a difference” (Inland Revenue & Centre for Social Research and Evaluation, 2007, p. 39). Of the reduction of 3,900 DPB recipients claimed to have been motivated by the IWTC, they acknowledge that the fall in numbers was greatest among those with other income, that is, people who had an *existing* attachment to the labour market. Of these, “some would have been already working sufficient hours (20 a week) to qualify.” Not detailed in this report is the number who would have moved off a part benefit onto the MFTC but the figures above suggest that many have done so as there were 1,800 new MFTCs paid in the year ending March 2007.

Overall, it is hard to see that the IWTC has been successful in achieving its goal of increasing paid work for parents, because:

1. Moving off a benefit does not equate to moving to full time employment or even increased hours, because of the use of the MFTC, which is arguably just a benefit in a different guise;
2. We have no measure of the impact on the working hours of couples where the WFF package has allowed them to reduce hours of paid work; and
3. Even if the IWTC helps some into paid work, past evidence shows that unless the children are well looked after and no health issues emerge for either child or parent, and the job is secure, then the employment may be short-lived.

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<sup>32</sup> Note the numbers for 2006 don't quite equal ones used above due to having been measured at different points in time.

The use of a fixed-amount, targeted, child-related payment such as the IWTC to reward paid work effort is problematic because, once a family qualifies for it, it provides no extra incentive to work more. It may eventually provide a disincentive to work, through high effective marginal tax rates abating against extra income (Nolan, 2002).<sup>33</sup> Universal payments, unfashionable and long since abandoned, have the advantage that they do not reduce as extra income is earned, so they are more work-friendly than targeted payments.

The Social Security Amendment Act 2007 targets young people through close monitoring and by making it more difficult for them to obtain benefits, but offers no incentives to work. For parents, where there are costs of working that are child-related, 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. It is noted that the 20 hours per week free preschool care for 3 and 4 years olds may be of assistance here, provided places are available (see Section 10).

### **Parental tax credit**

When a new baby is born to families that are working the required number of hours, the parental tax credit of \$150 a week is payable for up to eight weeks. This is added to the Family Tax Credit and abated against annual income. The order of abatement is Family Tax Credit first, then the Parental Tax Credit, and finally the In-Work Tax Credit.

Just as the In-Work Tax Credit leaves out the poorest children, those babies whose parents do not satisfy the hours-worked criterion are not eligible for the Parental Tax Credit.

### ***Moving to end child poverty***

If New Zealand is to reduce child poverty, then a more effective balance between raising the level of income support for all low-income families and providing work incentives needs to be found. Finding this balance may require a more nuanced approach than has been seen in New Zealand over the last fifteen years (St John, 2006). Despite the mounting evidence of more children living in deeper poverty, it is clear that the current government sees addressing child poverty as secondary to getting parents into more paid work. Yet, even if the current “work is the way out of poverty” thesis is correct and incentives are effective in moving parents from benefits to well-paid work, it is a very long-term solution to an immediate and serious problem.

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<sup>33</sup> Work incentives linked to the care of children also exclude the childless, who may be more in need of a work incentive than parents with young children.

Meanwhile many children are growing up in unnecessary hardship and suffering ill health, with serious long-term consequences for them and for society. A baby born into a poor family when Labour came to power is now nine years old, and is likely to have spent his or her formative years in hardship.

Almost all developed countries offer generous tax relief related to family size, and often a universal child benefit. New Zealand has a flimsy “house of tax credits” with too much reliance on outmoded notions of a stable, secure, “family-friendly” labour market. In fact, the reality for many families is “just in time” employment with uncertain hours, low wages and short-term contracts. If children are sick, uncertain employment arrangements add to the stress faced by many parents. Families with uncertain incomes also face the possibility of an end of year tax liability if they take the complicated WFF tax credits.

### **The 2008 Budget**

As the Irishman said: “If I wanted to get to Tipperary I would not have started from here.” Yet policy-makers must take existing policy and start with that. To begin to deal effectively with child poverty, the first requirement must be to remove the insidious discrimination in the IWTC. If \$60 was added to the Family Tax Credit (formerly Family Support) for the first child, and the IWTC was abandoned, those currently excluded from the IWTC would receive a significant boost to their incomes. If approximately 150,000 low-income families are not in receipt of the IWTC, the cost would be about \$450m. This would be highly targeted redistribution, as only the poorest would gain.

Once the discrimination is removed consideration should be given to bringing New Zealand back to a more balanced approach by universalising part of the Family Tax Credit. That way less is subject to abatement.

Rather than relying on the MFTC, with its worktest and draconian abatement rate, the rate at which benefits abate for additional income needs to be reduced, and tax on low incomes needs to be cut (see Section 7). This way families with children, especially sole parents, can seamlessly supplement their incomes without working the long hours stipulated by current policy. This would be more in keeping with the realities of the labour market, and provide greater security of income as well as giving parents greater flexibility to prioritise their children’s needs. This does not preclude mentoring parents back into the full-time paid work or study eventually, once the needs of their children have been met. It does however require greater commitment on the part of the community to helping parents with young children through at least the first years of their children’s lives.



## ***CPAG key recommendations***

- Abolish the In-Work Tax Credit and add \$60 to the first-child Family Tax Credit. Universalise \$20 of the Family Tax Credit for each child under 5.
- Abolish the Minimum Family Tax Credit. Raise the first \$80 threshold for abatement of the Domestic Purposes Benefit to \$130 per week and the second \$180 threshold to \$225. Extend the 30 cents in the dollar abatement of net benefit, effective between \$130 and \$225, to all beneficiaries with young children.

## **7. Tax and redistribution: The re-emergence of the 1980s tax break**

**Susan St John and Steve Poletti<sup>34</sup>**

An alarming persistence of child poverty in New Zealand, and a rapid growth in wealth and income inequality, are described in this report. The two are linked, and both sit uncomfortably with New Zealanders' perception of their country as one where everyone gets a "fair go".

The way tax is gathered is only one mechanism for achieving a fairer distribution of income, but it is a very important one. This section argues that the tax system has become far less successful in apportioning the tax burden equitably, and can be held responsible for a good part of New Zealand's widening wealth and income gap.

New Zealand's tax system does have many desirable features. In the mid-1980s New Zealand had a highly distortionary, inequitable and complex system, including a mishmash of different sales tax rates, and a top tax rate of 66 percent that was widely avoided. There were numerous gaps in the tax base, so that a lot of income escaped tax. Fringe benefits to employees and capital gains from the sale of assets were two examples.

The tax reforms of the late 1980s were designed to help restore a measure of fairness and simplicity, and to "level the playing field" instead of rewarding activities that were undertaxed or not taxed at (St John, 2007a). As a result of these changes, the New Zealand tax system has been widely praised as "the least distorting in the

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<sup>34</sup> Department of Economics, The University of Auckland.

OECD;” it features low rates of income tax applied to a broad base, accompanied by an across-the-board GST.

But while the low-level, broad-based approach has worked well in many ways, the rate of GST is now 12.5 percent and impacts disproportionately on low-income people. This is not compensated for through personal income tax rates, which are relatively high on low incomes given the flat personal tax rate schedule. As well, some of the gaps in the tax base have not been plugged the way the reformers had hoped for in the late 1980s. Investment in housing has remained very tax-advantaged and is therefore a mechanism through which the better-off have been able to increase their wealth at the expense of others.

Rather than rationally addressing the obvious problems, New Zealand’s tax policy has been drifting in a sea of populist slogans and party politics in recent years. In 2007, signaling a break with the past, a number of tax measures appeared to undermine the broad-base approach by reintroducing tax breaks for specific purposes, such as for research and development. Other changes, such as the introduction of KiwiSaver, tax breaks on other superannuation savings, and favourable treatment of portfolio investment entities (called PIEs), have further tipped the scales in favour of the well-off, at the expense of poorer single people and families with children.

In addition, proposals for income splitting have been signaled as likely in the next tranche of reforms. These are sold as benefiting low-and middle-income families, but will provide the greatest benefit to high-income earners.

The 2001 McLeod Committee conducted the first major review of taxes in NZ since 1982 and reinforced the need for an approach based on clear principles. Tax policy formulation in 2007, however, does not seem to be based on any coherent or principled view of what constitutes a “good” tax or what makes a “good” change to the tax system.

This loss of direction is likely to prove particularly harmful to children in low-income families, whose tax burden may become higher over time as the wealthier segments of society structure their affairs to take advantage of loopholes.

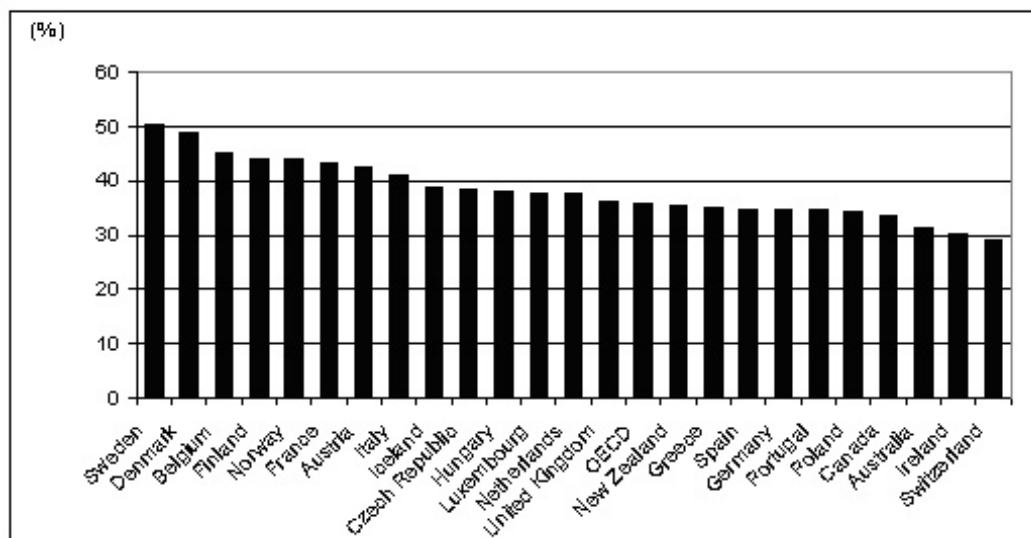
### ***Current Tax Regime***

New Zealand has a relatively flat personal income tax regime compared with many other countries, which disadvantages low-income families (Johnson, 2005). A high proportion of tax is collected via the consumption tax (GST), which reinforces the burden of tax on the poor. High-income earners are also advantaged as capital gains are largely untaxed, while housing investment losses can be written off against other income. In many other OECD countries, such losses are ring-fenced, and there are special capital gains taxes. In New Zealand there are no inheritance or wealth taxes, or stamp duties on housing sales, and family trusts can be used to minimise tax and

child support liabilities for high-income earners. All these policies tend to favour the wealthy.

New Zealand's total tax take is not high by OECD standards (Figure 16). Total tax (including compulsory social security contributions) for New Zealand is 35.6 percent of GDP, which ranks 16<sup>th</sup> out of 28 OECD countries, and is 0.3 of a percentage point lower than the OECD average.

**Figure 16: Tax receipts as percentage of GDP (2004).**

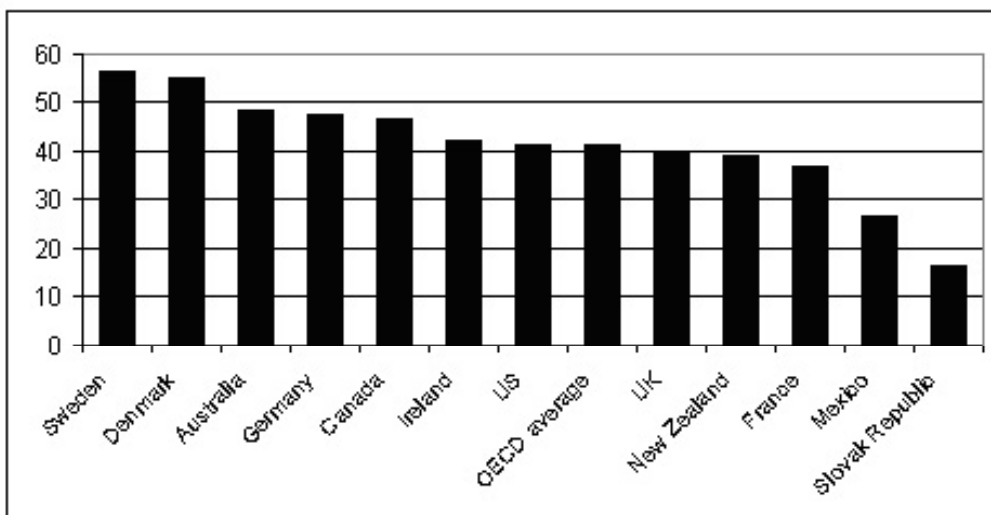


*Source: OECD, (2007)*

Nor is New Zealand's top personal tax rate high by OECD standards (Figure 17). At 39 cents in the dollar, it is below the OECD average of 41.3 cents.

A flat-tax regime in conjunction with broad-based consumption taxes is neo-liberal orthodoxy. The idea is that everyone pays similar rates of income tax, and therefore has an incentive to earn more. Progressive income tax regimes are seen as distortionary and unfair – punishment for hard work and initiative. What is usually left out of the discussion is the fact that, as is the case in New Zealand, flat tax regimes are regressive, and are a major contributor to income and wealth inequality. One rationale for broad-based flat tax regimes is that they encourage investment and hence improve economic growth. However, the evidence for this is far from clear cut. There may, in fact, be a correlation between a progressive tax regime, greater income equality and economic growth (Brooks & Hwong, 2006).

**Figure 17: Top tax rates for selected OECD countries**



Source: OECD, (2006)

## The Goods and Services Tax

New Zealand's share of tax revenue from GST is at the average for OECD countries (OECD, 2007). With minor exceptions,<sup>35</sup> it applies to all goods and services. Other countries with GST-like taxes have attempted to deal with their regressive nature by exempting some food, clothing and books. New Zealand has no such exemptions. While this makes administration easy, because it is combined with a flattish income tax and extensive use of "user pays" for government services, it results in a relatively high tax burden for low-income families.

## Taxation of housing

The OECD has repeatedly noted that the most glaring gap in New Zealand's otherwise A-rated New Zealand tax system is the exemption of housing from tax. Arguably, this exemption has resulted in investment decisions that, while good for some individuals, have been detrimental to the country as a whole (Poletti, 2007). It has significantly increased the price of housing, with the attendant housing-related issues for low-income families (see section 9 of this publication).

New Zealanders have shown their preparedness to buy houses in anticipation of capital gains. Rent yields have been declining since the mid 1990s (The Salvation Army Social Policy and Parliamentary Unit, 2007, p. 39), suggesting that the income stream from housing investments is not a significant factor in investment decisions. In New Zealand losses on housing investment can be written off against other income,

<sup>35</sup> Sale and lease of residential property, and financial transactions.

resulting in a lower overall tax bill. In addition, investors can write off expenses and depreciation against rent income, and capital gains are largely untaxed. Hence there is little incentive to invest in other, more productive, parts of the economy. Other OECD countries have some form of capital gains taxes and/or housing investment losses are ring-fenced. In New Zealand rules enabling losses to be offset against other income, and tax-free capital gains, clearly favour investment in housing.

In 2001 the first major review of taxes for 30 years recommended that New Zealand adopt a “Risk free rate method” of taxing housing instead of a capital gains tax. The merits of this were unfortunately never debated (The Treasury, 2001a).

This distortion in the tax system also threatens New Zealand’s long-term economic stability. New Zealand’s net international liability at the end of March 2007 was \$145 billion, an increase of \$15 billion from the previous year. Of the increase in liabilities between March 2006 and 2007, \$11.5 billion is an increase in net overseas debt, largely as a result of the banking sector borrowing from overseas to feed the housing asset bubble. New Zealand’s current account deficit for the year ended March 2007 stands at 8.3 percent of GDP, making it vulnerable to volatility in overseas capital markets.

There has been a corresponding decrease in net housing equity, as houses, which may previously have been debt-free, are sold to investors who fund their purchases by borrowing. The equity withdrawal from the housing market has in turn fuelled consumer spending. The investment in housing is an investment in an asset which does not increase the productive capacity of New Zealand and hence does not increase our ability to repay the loans.

Most importantly, the inflated housing market is having a negative impact on the ability of many families to adequately house themselves.

### ***Tax reforms 2007***

Unfortunately, in 2007 there are signs that “one of the most efficient [tax systems] within the OECD” (OECD, 2007) is retreating back to a regime of inequitable and inefficient special tax advantages. This has occurred with little discussion or input from the general public, or even informed technical experts. Below we outline some of the current and proposed tax advantages that risk widening New Zealand’s income gap even further.

One of the key planks to tax reform in the 1980s was not using the tax system itself to “pick winners,” but rather holding to the notion that maximum benefits flow from including as much as possible within the tax base. Thus a low rate of tax on a broad base was viewed as non-distortionary, simple and fair.

While there has always been a case for a special tax on social hazards, such as tobacco, in order to discourage their use, special tax breaks to encourage specific activities are overall far less justifiable. For example, incentives for saving do not

usually achieve their goals, are unfair and complex, and mean overall taxes on everyone else have to be higher (Douglas, 1988). Most of all, tax breaks give rise to tax evasion as companies and individuals manipulate their incomes to take advantage of them.

## **KiwiSaver**

One of the key policy changes is KiwiSaver. Ostensibly a retirement savings scheme, KiwiSaver is also designed to build a “stronger saving culture and encourage greater investing” (Cullen, 2007), and correct economic imbalances. The logic is that KiwiSaver will increase household savings and thereby reduce the current account deficit, and bring about “economic transformation” through increased growth (Cullen, 2007). A big ask for a retirement savings scheme!

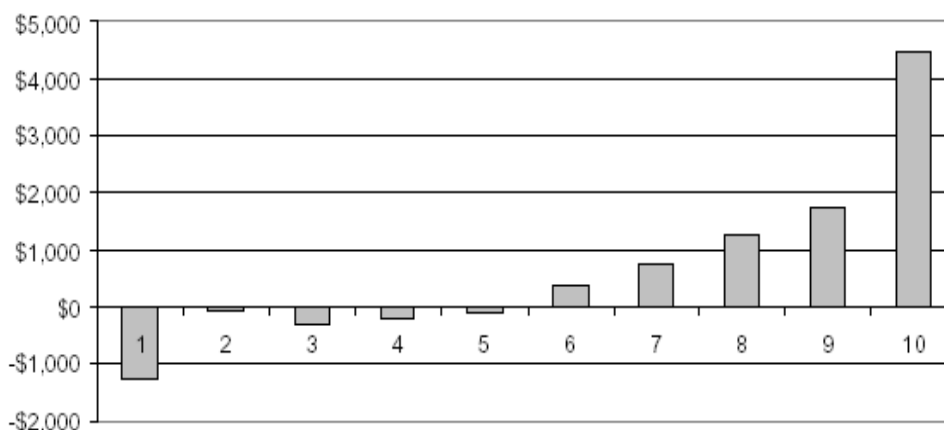
The concept of “saving” is complex. Annual **saving** is the difference between income and consumption. Saving occurs when people pay off some of their mortgages, just as it does when money is building up in an investment or bank account or in a share portfolio.

**Savings** is the term used to describe accumulated wealth. It is not clear that New Zealanders do not “save enough” for their retirement: Many households have **savings** (accumulated wealth) that are either very low or negative, while many others have substantial **savings**. On an annual basis some households are dis-saving, ie running down their accumulated wealth, while others are saving positively. This can reflect age factors, and so it hard to know how to interpret a total household saving or savings figure. Indeed there is some work showing that on the whole, allowing for New Zealand Superannuation, most people in the late workforce age group are doing enough to ensure they can largely continue to maintain their living standards into retirement (Scobie, Gibson, & Le, 2004).

Figure 18 shows that financial saving is concentrated in the top deciles of household income. Low-decile households are borrowing rather than saving and have substantial debts. It is unlikely that the substantial – and fiscally expensive – incentives to join KiwiSaver will increase the savings of these families. Perversely, the tax breaks for KiwiSaver are now so good, it is probably in some of these households’ interests to join KiwiSaver and increase their debt to do so (Retirement Policy and Research Centre, 2007b).

Until KiwiSaver, all financial saving, including retirement saving, was treated the same. Earned money was taxed, whether it was being used for consumption or saving, interest on all saving was taxed, and payouts were tax-free. This equal treatment of saving, or tax neutrality, played a large part in the reputation for efficiency of the New Zealand tax system. Because all savings were treated the same, there were in principle no incentives to save one way rather than another, although housing remained tax-favoured.

**Figure 18: Annual Household Financial Saving by Income Decile - 1997-98**



*Source: The Treasury, (2001c)*

Initially the government contribution to KiwiSaver was limited to a \$1,000 kick start and a fees subsidy of \$40 a year. This would have been a reasonable policy with minimal distortionary implications for savings decisions. Now, however, the level playing field has been abandoned (St John, 2007a). Firstly, in spite of Treasury advice to the contrary, employer contributions of up to 4 percent of an employee's wages to KiwiSaver or any approved superannuation scheme have been made tax-free. Because there is no upper to which the 4 percent applies, the more a person makes, the more they gain.

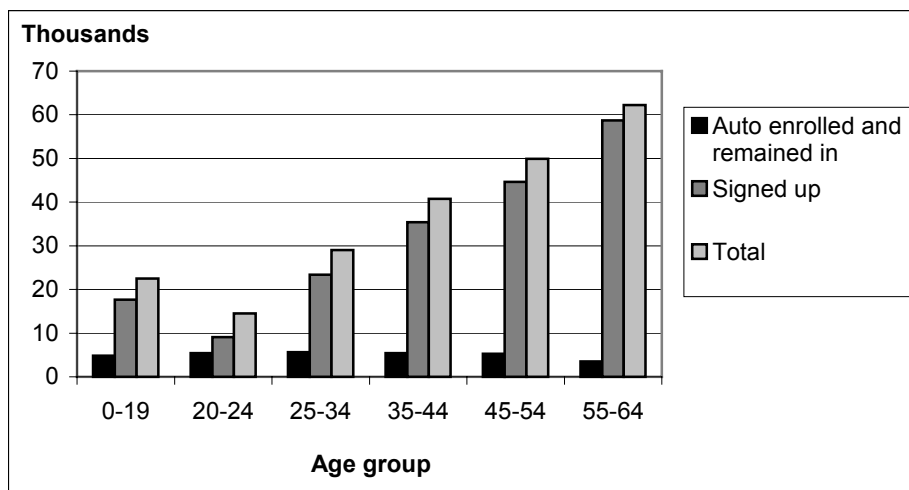
This tax break was announced in 2006 and was not subject to public scrutiny or debate. It was to be expected that this would be the beginning of pressure for more tax breaks. And indeed this has proved to be the case. The 2007 budget announced very generous tax credits for both the first \$1,040 of member contributions and for employer contributions, which will eventually become a compulsory 4 percent contribution for KiwiSaver members. This fiscal generosity raises the question of whether KiwiSaver will increase national savings as hoped. Treasury's (2007b) cautious view was that it was "likely to result in an increase in private saving of close to (or perhaps more than) the full fiscal cost of the package."

Some positive features of KiwiSaver include full portability, choice of provider and the likelihood of increased financial literacy in the population over time. But there are several reasons to support the claim that KiwiSaver is "seriously regressive" (Wynd, 2007) despite the use of a tax credit approach rather than a tax incentive:

- At any given income level, the two-earner family gains the most if they both belong.
- High-income one-earner families are more likely to have the non-earner in KiwiSaver accessing the upfront \$1,000 and the matching annual \$1,040 subsidy.

- High earners are more likely to benefit from the advantageous PIE regime and from salary sacrifice options (Retirement Policy and Research Centre, 2007b).
- Older, wealthier baby boomers are more likely to join as they have less time to wait to get the upfront incentive. Returns on savings, ignoring the actual investment returns, are high.
- Subsidised KiwiSaver contributions overturn the old rule that reducing debt was the first main preparation for retirement. It now makes financial sense either not to reduce debt, especially student loan debt, or even to increase debt to join KiwiSaver.
- Younger debt-laden workers, beneficiaries and the low paid, and those with children are less likely to join because of the initial 4 percent contribution hurdle, and being locked in until they are aged 65. As at 29 October 2007, 51 percent of those enrolled in KiwiSaver were aged 45-64. Those aged 20-34 comprised less than 20 percent of KiwiSavers (Figure 19). This older age group is also the most likely to gain from the tax breaks offered by portfolio investment entities (see following section). This also suggests that it is higher-income workers who are getting the benefits of KiwiSaver – that is, it is effectively operating as a direct transfer to the better off.

**Figure 19: KiwiSaver enrolments as at October 2007**



*Source: Inland Revenue Department 2007. Information on file with CPAG.*



For better-paid workers, it is unclear if KiwiSaver will increase savings as hoped, or simply encourage savings to be shifted into tax-advantaged superannuation schemes.

For beneficiaries, KiwiSaver is another wedge between them and those in work. While KiwiSaver is open to all New Zealanders except those over 65, beneficiaries are unable to take advantage of the tax-free employer contribution, and must contribute \$20 a week to get the full member tax credit. Long-term beneficiaries, in particular invalids, continue to face the prospect of a very low standard of living while they are of working age, no KiwiSaver, and a meagre standard of living in retirement. Young families also face the invidious prospect of not being able to afford to join KiwiSaver, or worse, being compelled to join in lieu of tax cuts, as is being debated in 2008.

Women, too, are right to be concerned given that they tend to earn less overall during their working lives. Superannuation schemes that favour the well-paid are fiscally expensive, and in the long run the universal superannuation that has played such a crucial role in protecting New Zealand's elderly from poverty is at risk. KiwiSaver makes it more likely that in the future, superannuation will be means tested and asset tested, as it is in Australia, providing only a minimal safety net for those with few retirement savings. For many women, this may mean a reduced standard of living in retirement, especially compared with others who have saved in KiwiSaver.

Thus there is potential for KiwiSaver and other approved superannuation schemes to carry current inequality well into the future. It seems a high price to pay when it is very unclear that the stated policy goal of resolving New Zealand's current account crisis is unlikely to be achieved in any meaningful way (Retirement Policy and Research Centre, 2007a). In the meantime, the fiscal costs of KiwiSaver subsidies may preclude overdue tax cuts for those on low incomes.

If investment and economic transformation are government's goals then the money tied up in tax breaks through KiwiSaver would be better spent ensuring that our children are well fed, housed, and educated (Wynd, 2007).

In 2008, fears of the inflationary impact of tax cuts might lead to making KiwiSaver compulsory, with tax cuts put into these accounts. Once again children in the lowest income families will be disadvantaged by their parents not being able to access this money until they are 65.

### **Portfolio Investment Entities**

Collective or portfolio investment entities (known as PIES) such as KiwiSaver funds are now taxed on earnings at a proxy rate for the tax rate for their investors. Low-income investors are now taxed at 19.5 percent, in contrast to the previous rate of 33 percent. The highest rate of tax falls from 33 percent to 30 percent (from 1 July 2008) making investment in PIES very attractive for those on a 39 percent personal income

tax rate. Moreover the rules are such that it is possible to have income of up to \$60,000 from PIES and still only pay 19.5 percent tax (Retirement Policy and Research Centre, 2007b), rather than the marginal rate of 39 percent paid by wage and salary earners on the same income.

There has been no distributional impact statement as to the impact of these changes. But they signal the return to manipulations by the better-off to minimise tax, as occurred in the early 1980s (Retirement Policy and Research Centre, 2008).

### **Income splitting: A common sense approach to child poverty?**

Income splitting has been proposed by the Minister of Revenue, the Hon Peter Dunne, as a way of ensuring that the tax system takes account of the costs involved in raising children.<sup>36</sup> It may appear as a point of bargaining in the 2008 coalition talks in the event the election is not won outright by either party.

Income splitting would allow single-income families to treat their joint income as if it had been earned equally between the two partners, and thus pay less tax. For example, a family with an income of \$60,000 from one income, with a non-working partner and two children, currently pays \$15,435 tax.<sup>37</sup> Under income splitting, the \$60,000 would be treated as two incomes of \$30,000, with a total tax bill of \$12,218, a saving of \$3,217 per year.

This looks promising, and certainly the stated policy aims of recognising the costs involved in raising children and assisting single income families (and/or making it easier for one parent to remain at home) are worthwhile. There are, however, two major flaws that suggest income splitting will do little to alleviate child poverty, while advantaging the highest income groups the most.

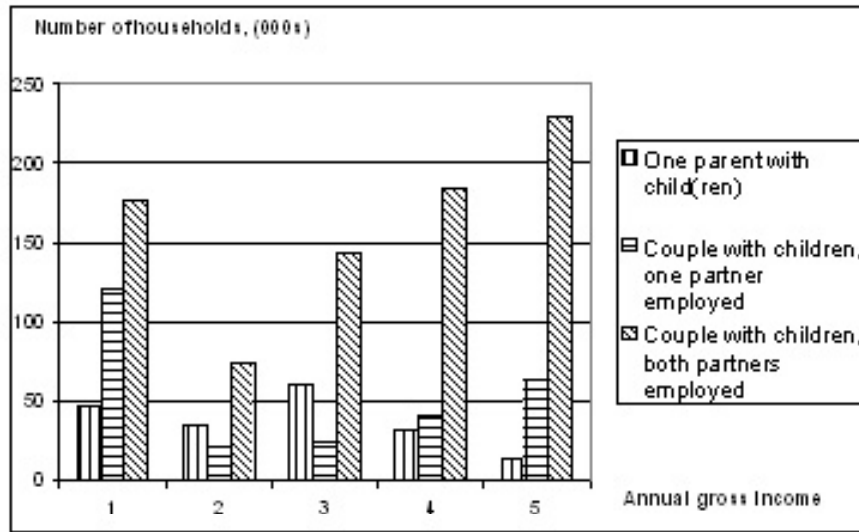
Clearly, a key assumption is that children are growing up in families with two parents, only one of whom is employed. Yet, as Figure 20 clearly shows, this type of household is a minority. By far the greatest number of households with children have two employed parents. While income splitting may benefit couples with disparate earnings, it will not improve incomes where the partners' earnings are equal or approximately equal. Most importantly, it will do nothing to assist single parent households, and it is single parent households that are most likely to be in hardship.

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<sup>36</sup> This section draws on CPAG backgrounder by Amy Cruikshank, available at [www.cpag.org.nz](http://www.cpag.org.nz).

<sup>37</sup> All figures exclude family assistance for the sake of simplicity.

**Figure 20: Annual household income of selected family types**



Source: Statistics New Zealand Household Economic Survey, 2004.

Key	
1	Under \$9,500
2	\$9,501-\$16,599
3	\$16,600-\$28,299
4	\$28,300-\$43,299
5	\$43,300 and over

Income splitting also favours high-income earners (Figure 21). As noted, a household with a single earner on \$60,000 can save \$3,217 per year from income splitting. However, a household on \$36,000 stands to gain only \$570 per year. That

is, a family on just over half the income gets less than one fifth as much tax relief. There is no gain for two-earner families where income is currently equally earned.

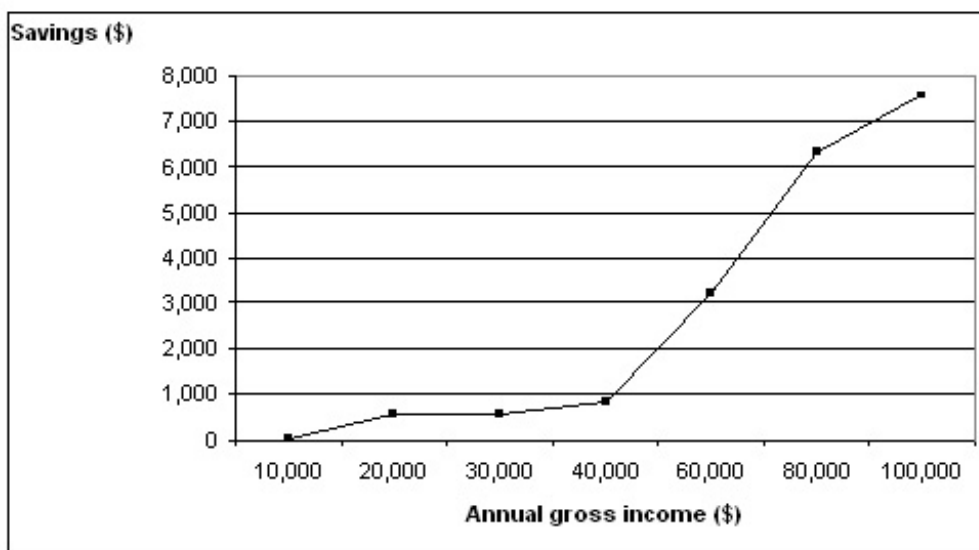
Nor is it obvious how income splitting would interact with WFF. If it is an addition to WFF then the costs would be very significant.

In 2001, the McLeod tax review concluded:

*Income splitting creates as many problems as it solves. Also, it is not well targeted. Income splitting favours any couple with one income. Traditional families with an 'empty nest' and a well-paid principal earner would benefit; working sole parents with dependent children would not.*

(The Treasury, 2001d, p. 98)

**Figure 21: Annual tax savings from income splitting<sup>38</sup>**



*D Wynd, derived from IRD worksheets.*

In essence, income splitting, like the IWTC, will simply serve to create a bigger gap between sole parent families and others. Any policy that is serious about addressing child poverty needs to reduce this gap, not increase it.

### **Reforming the tax system**

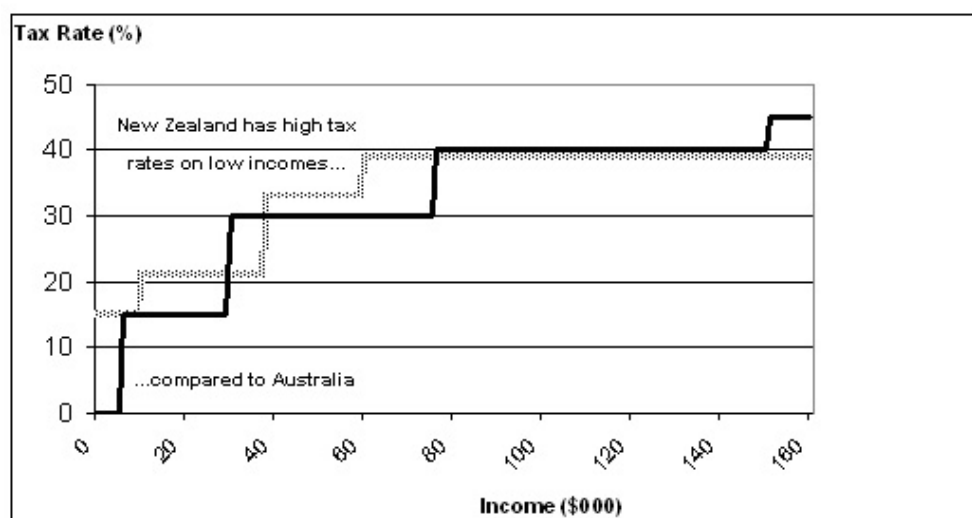
New Zealand's level of after-tax income inequality is one of the highest in the OECD. As New Zealand has an income tax structure which is amongst the most regressive in the OECD, we urgently need to reform the income tax structure to make it more progressive. While the greatest pressure for tax reform (in the form of tax cuts) is coming from middle- and high-income earners, it is low-income earners who have the greatest need of additional income. There is also an argument that tax reform needs to redistribute the tax burden, rather than reducing the overall tax burden, which is not high by OECD standards.

Overall, low income earners are much more harshly treated in New Zealand than in Australia (Nolan, 2007). Compared with Australia, New Zealand tax rates are significantly higher for low-income earners (Figure 22). A key difference is that in Australia the first \$11,000 (counting the low-income rebate) of earnings are tax-free.

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<sup>38</sup> All tax calculated using tax code "M", and the IRD PAYE calculator at <http://www.ird.govt.nz/calculators/tool-name/tools-c/calculator-payee-2008.html?id=homepage>. No allowance has been made for KiwiSaver contributions.

**Figure 22: New Zealand and Australian tax rates**



One of the problems is that the tax system is not indexed. The effect of the low earner rebate is to create two effective low rates of 15 percent and 21 percent. The bottom 15 percent tax threshold (\$0-\$9,500) has not been increased for 30 years.

Yet, it is clear that there are surpluses to redistribute and the government will be giving tax cuts in 2008. One option is to introduce a tax-free first band. It is, however, very costly – approximately \$220 million for each percentage point change in the bottom tax rate. This means that making the first \$9,500 tax-free would cost roughly \$3.3 billion.<sup>39</sup> Another option is to lower the 15 percent band to 10 percent and extend the threshold out from \$9,500 to \$20,000.<sup>40</sup> This would cost an estimated \$3-3.5 billion. Alternatively, some combination of these could be implemented.

A key feature is that this proposal would also help overcome the high effective marginal tax rates faced by many low-income earners receiving family assistance. Similarly, it would reduce the very high EMTRs faced by beneficiaries moving into work by eight percentage points. Further, it would help reduce “partner penalties”<sup>41</sup> whereby a secondary income earner working a modest number of extra hours is hit with high effective marginal tax rates, as family tax credits and accommodation supplement are abated away.

<sup>39</sup> All calculations derived from IRD reckoner at: <http://www.treasury.govt.nz/government/revenue/estimatesrevenueeffects/estimates/index.htm#notes4>. Figures are very rough estimates only as IRD’s reckoner is designed to apply to small changes.

<sup>40</sup> This would be the top of the first income bracket had it been indexed since the late 1980s.

<sup>41</sup> See Johnson (2006, pp. 47-64) for a comprehensive analysis of this.

For low- and middle-income families with children in paid employment, the Working for Families package has changed things for the better. For these families at least, the tax credits available to them make New Zealand's tax structure considerably more progressive. For example, a single parent with two children on 67 percent of average earnings now receives more in tax credits than they pay in income tax.<sup>42</sup> However, these credits cannot be seen as a comprehensive solution to New Zealand's regressive tax structure, as they ignore single income earners and beneficiaries.

It is also time for changes to tax on housing investments to be revisited. The 2001 tax review recommended that New Zealand introduce not a capital gains tax, but rather a tax on equity, using the Risk Free Rate Method (RFRM) (The Treasury, 2001a, p. 32). In this proposal, individuals are taxed on their net equity in housing as if they had invested this money in a deposit at a risk-free rate of, say, 4 percent. This would be the only tax, so that complex accounting for rents and costs, profits and losses would not be needed. CPAG endorses the RFRM as the most efficient and effective method for taxing housing, with the proviso that it not apply to owner-occupied homes, or if it does

that there be a generous exemption, which could be in the range of \$1 million per person.

## ***Conclusion***

By the standards of most other OECD countries, New Zealand's income tax structure is regressive, with existing tax breaks such as those available to property investors heavily favouring the better off. This has been exacerbated by recent changes, including the tax breaks now available to those enrolled in KiwiSaver. We have argued here that recent changes are inequitable, and unlikely to achieve their stated aim of increasing the nation's overall rate of growth or savings significantly. All this inequity and policy confusion come at a considerable cost to the taxpayer. KiwiSaver is budgeted to cost \$965 million in 2008/09, rising to \$1.29 billion by 2010/11 (The Treasury, 2007a, p. 142). By 2015/16 the total cost is expected to be over \$2 billion (Office of the Retirement Commissioner, 2007, p. 54). The beneficiaries of this fiscal largesse will largely be those middle- to high-income earners in a position to take the greatest advantage of it. CPAG suggests that the KiwiSaver tax breaks be abolished, and the money be used instead to lower the bottom income tax rate to 10 percent, or push the bottom tax bracket out from its present \$9,500 to \$20,000, or some combination of these.

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<sup>42</sup> Comparisons across countries are difficult because not all family assistance is delivered via tax credits.

It can be argued that KiwiSaver and other superannuation tax breaks are one way to reduce the fiscal surplus and give tax cuts that will not contribute to inflation. However, tax cuts for low-income families are unlikely to drive up inflation. At present, it is evident that many low-income families, both working and beneficiary families, are borrowing to meet day-to-day expenses such as rent and electricity (Ministry of Consumer Affairs, 2007b). This is occurring in financial markets where there are few regulations, and those few are often flouted in practice. Real tax cuts for low-income families would provide some real financial relief for these families, and would reduce their need to borrow from poorly regulated and unscrupulous moneylenders.<sup>43</sup>

In 2001 the McLeod report noted that tax breaks on housing were fiscally costly. There can be no doubt this cost is now much greater. Changes to the tax regime on housing investment could be used to help pay for reducing the tax burden on low-income earners, in order that they, too, could afford decent housing for their families.

For similar reasons, CPAG urges that tax breaks for high earners on PIEs be scrapped, in favour of a system in which investment earnings are imputed and thus taxed at the correct marginal tax rate. The existing arrangements favour the better off, and offer an incentive for the wealthy to structure their affairs so as to minimise tax.

Between them, tax breaks on PIEs and KiwiSaver, as well as on research and development, have the potential to seriously undermine the broad based system that has mostly served New Zealand well since the 1980s. Income splitting as proposed will further undermine it. Because there really is no such thing as a free tax break, one group inevitably pays to support another's reduced tax burden. In this case, the cost will almost certainly be borne by low and middle income earners unable to take advantage of the tax advantages offered. This means fewer resources will be available to their children – children in families already borrowing to meet the basic living costs.

It is possible that better-off older New Zealanders think it is acceptable for children in poor families to subsidise their private retirement savings. However, we don't really know if that is the case, because these fundamental changes to our tax structure have taken place with almost no input from the public, and this is one of the most shameful aspects of the changes.

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<sup>43</sup> A discussion on credit and possible regulation is included in Section 12.

## **CPAG key recommendations**

- Reduce tax on low incomes, and adjust benefits to maintain and improve their relativity with the new, higher, net average wage.
- Remove regressive tax incentives for KiwiSaver, especially the tax exemption for the employer contribution. Tax all investments at the appropriate marginal tax rate of the investor.
- Reform the tax treatment of rental housing investment to remove regressive advantages.

## **8. Health perspectives on child poverty**

**Nikki Turner<sup>44</sup> & Innes Asher<sup>45</sup>**

*Many things we need can wait. The child cannot. Now is the time his bones are being formed; his blood is being made; his mind is being developed. To him we cannot say tomorrow. His name is today.*

Gabriela Mistral

### ***Importance of health and wellbeing in childhood<sup>46</sup>***

How children experience childhood has lifelong influences on their adult wellbeing, and that of subsequent generations. In particular, the experiences of the unborn baby and the child in the first three years of life have much more profound effects than experiences during other periods in life. Health data conclusively shows that childhood represents a valuable opportunity to change children's lives for the better.

Similarly, ill health in childhood carries heavy costs. When children are acutely ill, they may experience immediate pain, suffering and loss of schooling. They may also bear longer-term costs from permanent damage. Long-term costs to the child may include limb amputation, lung damage (Byrnes, 2006; Grant, 2006), brain damage (Ministry of Health, 2006b) and, ultimately, poor employment outcomes due to loss of education time and/or long-term or recurrent illness. The costs to families include

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<sup>45</sup> Professor of Paediatrics, School of Medicine, The University of Auckland.

<sup>46</sup> Child Poverty Action Group would like to thank Dr Liz Craig of the New Zealand Child and Youth Epidemiology Service (NZCYES) for permission to use much of the data in this section.



costs involved for doctors' visits, especially after hours, medicines, transport and parking, as well as loss of caregivers' income. The costs to the economy are the costs of the full medical care, and loss of economic and social production, both from the adult caregivers and later from the impairment of these disadvantaged sick children as they enter adulthood. The National British Birth Cohort Study found that "children who experience poor health have significantly lower earnings as adults" (Case, Fertig, & Paxson, 2003). There can be a range of other legacies of loss from childhood illness too, leading to poorer outcomes in adult life across social and educational achievements and general wellbeing.

### ***The effect of poverty on children's health***

Income is the single most important determinant of health. There is a persistent correlation worldwide between low income and poor health (National Health Committee, 1998). A child growing up in poverty is three times more likely to be sick (Easton & Ballantyne, 2002), and hospital admission rates for children from low-income areas are significantly higher than for better-off children (Graham, Leversha, & Vogel, 2001).

A child from a low-income household has overall a 1.4 times higher risk of dying than a child born into a wealthier family. This inequality is even greater for the risk of dying from an injury. A child growing up in poverty has a 1.9 times higher risk of dying from a non-traffic injury than a child growing up in a higher income household (Shaw, Blakely, Crampton, & Atkinson, 2005).

Poverty in childhood has a direct effect on adult health. "The key determinant of health in adulthood is economic status in childhood... More attention needs to be paid to health as a potential mechanism for intergenerational transmission of poverty" (Case, Fertig, & Paxson, 2003).

New Zealand's Dunedin Longitudinal Study found that there was more disease in adults who had experienced socio-economic disadvantage as children. Those who grew up in poorer families had more heart disease, poorer dental health and more drug abuse as adults, regardless of their adult income. The authors went on to recommend that "protecting children against the effects of socio-economic adversity could reduce the burden of disease experienced by adults. Policy makers should direct energy and resources towards childhood as a way of improving population health" (Poulton et al., 2002). The Christchurch Longitudinal Study found that children living in poor households at age 5 were more likely to have missing teeth and gum disease as adults than children from more financially well off households (M. Thomson, 2004).

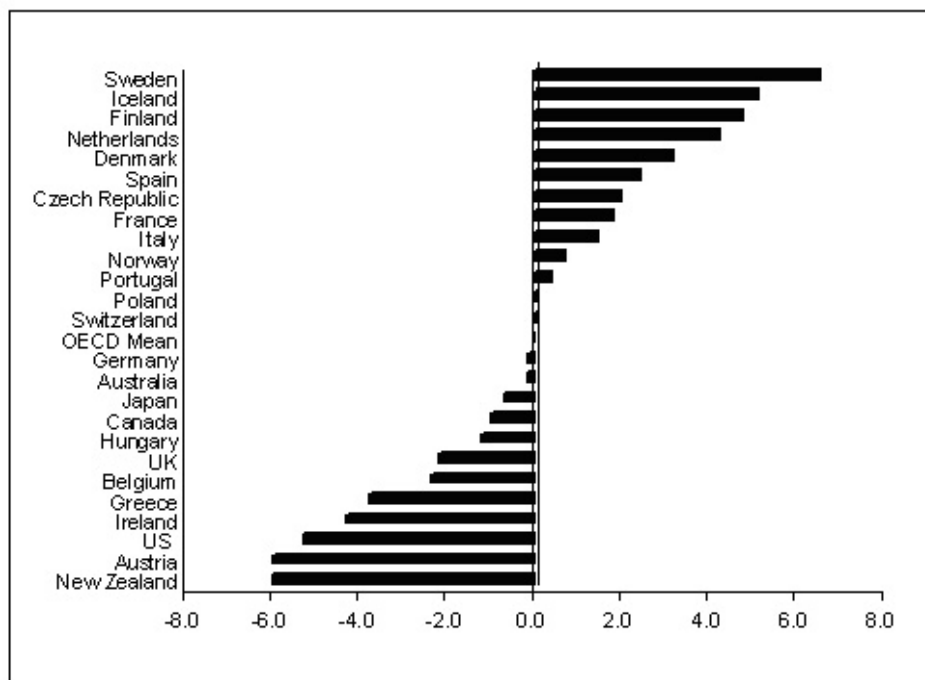
More attention is also now being paid to understanding how the distribution of risk factors leads to inequalities between communities. For example, traffic accidents involving children are fewer and less severe in wealthier areas, which have more

speed bumps to slow down traffic, whereas more deprived areas have more shared driveways, exposing young children to the risk of being run over.

### **Health and disease issues and trends for NZ Children**

In 2007 UNICEF drew the world’s attention to New Zealand’s poor performance in terms of the health and safety of our children (UNICEF, 2007). In New Zealand more children die from injuries than in any other OECD country. We also have comparatively high infant mortality rates and low immunisation rates (Figure 23).

**Figure 23: Health and safety of children, an overview**



*Source: D Wynd, from UNICEF data*

### **Deaths**

The leading cause of death in infants aged one month to one year of age is sudden unexpected death in infancy (SUDI) (Table 4). In both children and young people aged 1-24, injuries are the leading cause of death. These deaths are more common in children who are living in disadvantage, especially Māori children (Craig, Jackson, Han, & NZCYES Steering Committee, 2007).

**Table 4: Most frequent causes of death in children and young people aged 1 month-24 years**

Cause of Death	Number*	Annual Average	Rate*	% deaths in age group
<b>Post-Neonatal (29-364 days)</b>				
Sudden Unexpected Death in Infancy (SUDI)	304	60.8	107.4	33.3
Congenital Anomalies: CVS	46	9.2	16.3	6.9
Congenital Anomalies: CNS	22	4.4	7.8	3.3
Congenital Anomalies: Other	53	10.6	18.7	8.0
Injury / Poisoning	37	7.4	13.1	5.6
Other Perinatal Conditions	58	7.4	20.5	8.7
Other Causes	144	7.4	50.9	21.7
<b>Total</b>	<b>664</b>	<b>132.8</b>	<b>234.6</b>	<b>100.0</b>
<b>Children 1-14 Years</b>				
Injury / Poisoning	369	73.8	9.3	41.6
Neoplasms	144	28.8	3.6	16.3
Congenital Anomalies	108	21.6	2.7	12.2
Meningococcal Disease	23	4.6	0.6	2.6
Intentional Self Harm	18	3.6	0.5	2.0
Pneumonia	14	2.8	0.4	1.6
Asthma	8	1.6	0.2	0.9
SIDS	7	1.4	0.2	0.8
Other Causes	195	39.0	4.9	22.0
<b>Total</b>	<b>886</b>	<b>177.2</b>	<b>22.2</b>	<b>100.0</b>
<b>Young People 15 - 24 Years</b>				
Injury / Poisoning	938	187.6	35.9	47.9
Suicide	512	102.4	19.6	26.1
Neoplasms	154	30.8	5.9	7.9
Congenital Anomalies	63	12.6	2.4	3.2
Meningococcal Disease	19	3.8	0.7	1.0
Asthma	17	3.4	0.7	0.9
Pneumonia	6	1.2	0.2	0.3
Rheumatic Heart Disease	5	1.0	0.2	0.3
Other Causes	246	49.2	9.4	12.6
<b>Total</b>	<b>1960</b>	<b>392.0</b>	<b>75.1</b>	<b>100.0</b>

*Note: \*Numbers are per 5 year period. Rates are per 100,000 per year.*

*Source: New Zealand Child and Youth Epidemiology Service, (2007)*

## **Admissions to hospital**

Among children, the most frequent reasons for being admitted to hospital are injury/poisoning, asthma, and gastroenteritis. These admissions are more common for children who are living in disadvantage (Table 5).

**Table 5: Post-neonatal hospital acute admissions by primary diagnosis in children 0-14 yrs, New Zealand 2002-2006**

Primary Diagnosis	Rate*	%
Injury / Poisoning	11.0	15.3
Gastroenteritis	5.6	7.9
Asthma	5.2	7.3
Bronchiolitis	5.0	7.1
Viral Infections	4.3	6.0
Pneumonia	3.8	5.3
Acute URTI	3.5	4.9
Skin Infections	2.9	4.0
Abdominal/Pelvic Pain	2.0	2.7
Urinary Tract Infections	1.3	1.9
Other Diagnoses	26.9	37.6
<b>Total</b>	<b>71.5</b>	<b>100.0</b>

*Note: \*Numbers are per 5 year period. Rates are per 1,000 per year. Injury and mental health emergency department cases removed*

*Source: New Zealand Child and Youth Epidemiology Service, (2007)*

## Trends in child health

Infant mortality rates decreased in the late 1980s to early 1990s, mostly due to reductions in cot death rates. In recent years this has tapered off, with even a slight rise. This had been mainly due to more infants dying of extreme prematurity in the neonatal period (although it is not clear why this is happening). The number of babies dying in the post-neonatal period has not increased, but an increasing proportion of the deaths are occurring in Māori babies and babies from low socio-economic areas. Cot death rates among Māori remain static.

For many preventable diseases, there was a rapid rise in hospitalisations during the 1990s, beginning in 1992. This increase represented a tipping point for child disease. It correlates with the marked rise in child poverty which occurred at the same time. In recent years there has been a leveling out of hospitalisation rates for many diseases, and in some cases a small fall. However, rates remain high by OECD standards, and have not fallen back to pre-1991 levels. Hospitalisation rates for serious skin infections remain double the rates of the US and Australia.<sup>47</sup>

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<sup>47</sup> Some portion of the increase in hospital admission rates may be due to lower thresholds for admission, or changes in admission practices. Increasing rates of some diseases such as bronchiectasis may also be due to improved diagnosis through use of high resolution CT.

An emerging issue of concern is that for some severe diseases, for example bronchiolitis, hospitalisation rates are now increasing after a period of decline.

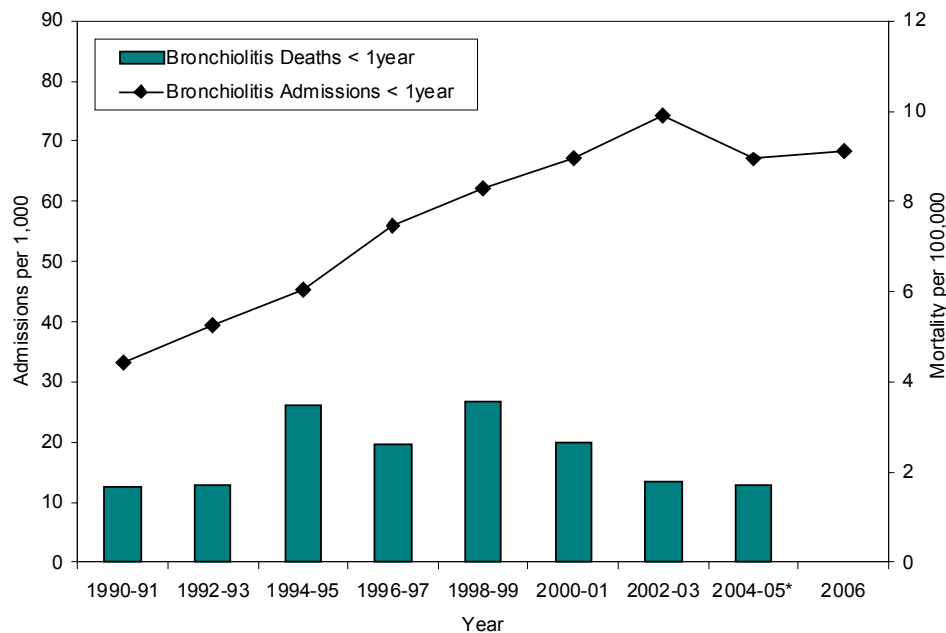
## Specific Health Issues

### Respiratory Tract Infections

#### Bronchiolitis

Bronchiolitis is a viral chest infection of babies which causes wheezing, coughing and difficulty breathing. Hospital admission rates for bronchiolitis have risen steadily since the late 1980s, and although they may be levelling off, they remain at dramatically higher rates than they were 25 years ago (Figure 24). A child who lives in poverty (from NZ Deprivation decile 10) has a 4.5 times higher likelihood of being hospitalised with bronchiolitis than a child from a wealthy background (NZ Deprivation decile 1).<sup>48</sup> There are also large inequities for Māori and Pasifika children, with Pasifika children having a five times increased risk and tamariki Māori a three times increased risk of being hospitalized with bronchiolitis.

**Figure 24: Hospital admissions and deaths due to bronchiolitis in infants <1 year, New Zealand 1990-2006 (admissions) & 1990-2004 (deaths)**



*Note: \*Mortality is for 2004 year only*

*Source: New Zealand Child and Youth Epidemiology Service, (2007)*

## **Bronchiectasis**

Bronchiectasis (permanent lung damage) is a form of severe chronic lung damage that leaves a child with difficulty breathing, and less lung capacity. This reduces the child's ability to engage in normal activities, and leads to chronic tiredness and recurrent infections. It is often caused by repeated respiratory tract infections or pneumonia in childhood. This disease is fairly common in New Zealand, whereas it is rare in other OECD countries (for example, rates are 7 times higher in New Zealand than in Finland).

A child's risk of ending up with bronchiectasis is very strongly related to growing up in poverty, with a child from a poor household having an 11 times higher risk for hospital admission than a child from a better-off household. Māori and Pasifika children also bear a much heavier burden of disease, with a Māori child having a three times increased risk and a Pasifika child 12 times increased risk, compared with a Pakeha child.

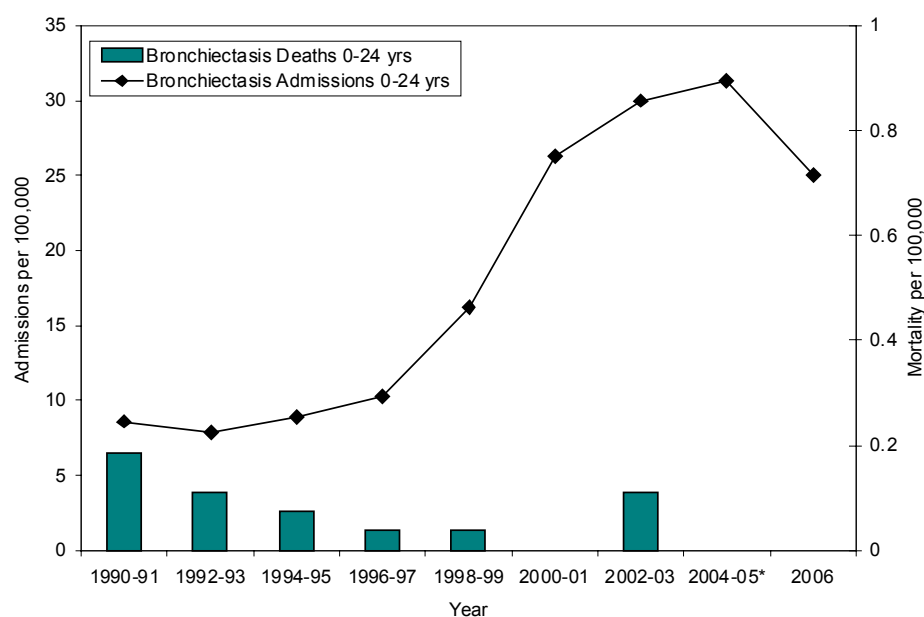
The pattern of hospital admissions (Figure 25) for bronchiectasis differs slightly from other respiratory illnesses, in that the rise has been much more rapid; however, some

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<sup>48</sup> Note the deprivation index used in medicine is the reverse of that used elsewhere in this publication. That is, 10 is the lowest or poorest income band, and 1 is the highest, or wealthiest.

part of this may be due to improved diagnosis. The recent fall in admission rates is welcome, but the very high rates and marked disparities for Māori and Pasifika children, compared with others, continue to be a concern.

**Figure 25: Hospital admissions and deaths due to bronchiectasis in children and young people 0-24 Years, New Zealand 1990-2006 (admissions) & 1990-2004 (deaths)**



\* Mortality is for 2004 year only

Source: New Zealand Child and Youth Epidemiology Service, (2007)

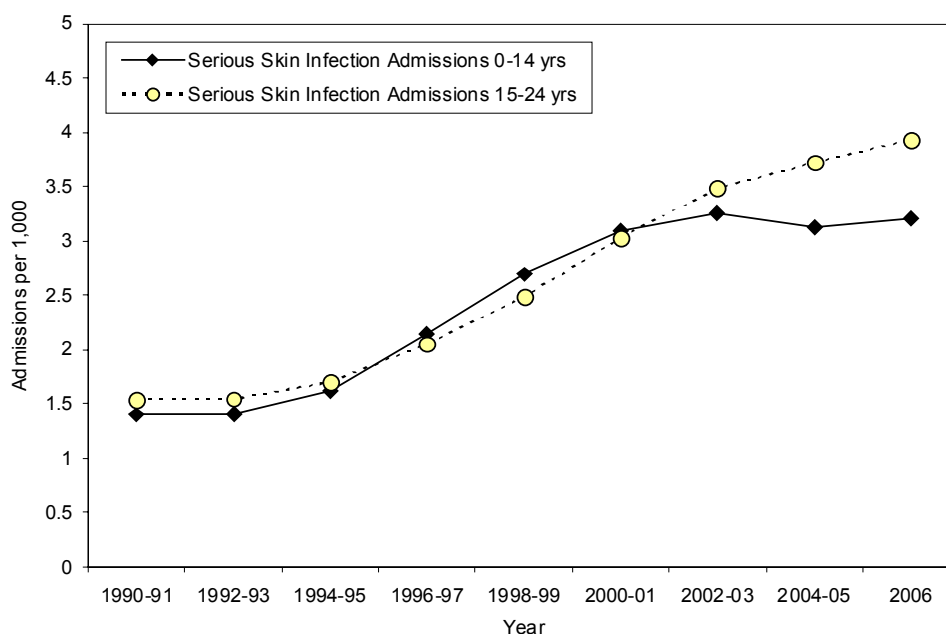
## Serious skin infections

Bacterial skin infections are a common cause of hospital admissions for children. As with respiratory illnesses, hospital admissions increased dramatically in the 1990s, and have tapered off in recent years, yet remain much higher than 25 years ago. A child from a poor household (NZ Deprivation decile 10) is 3.7 times more likely to be admitted to hospital than a child from a wealthy household (New Zealand Child and Youth Epidemiology Service, 2005). In addition, Māori children have a 2.8 times higher risk and Pasifika children a 4.4 times higher risk than other children of ending up in hospital with a skin infection (New Zealand Child and Youth Epidemiology Service, 2005).

There are a range of reasons why poorer children are more likely to be hospitalised with severe skin infections. Overcrowding is a key risk factor because crowded living conditions make transmission of infection easier, and poor hygiene may arise from fewer and worse washing facilities, as well as shared towels and bedding. Poor access to primary care for management of infestations such as nits, infected insect

bites and cuts, poor nutrition, and stressful households all diminish the child's ability to fight infection.

**Figure 26: Hospital admission rates (1988-2004) due to serious skin infections for New Zealand children and young people 0-24 years**



*Source: New Zealand Child and Youth Epidemiology Service, (2007)*

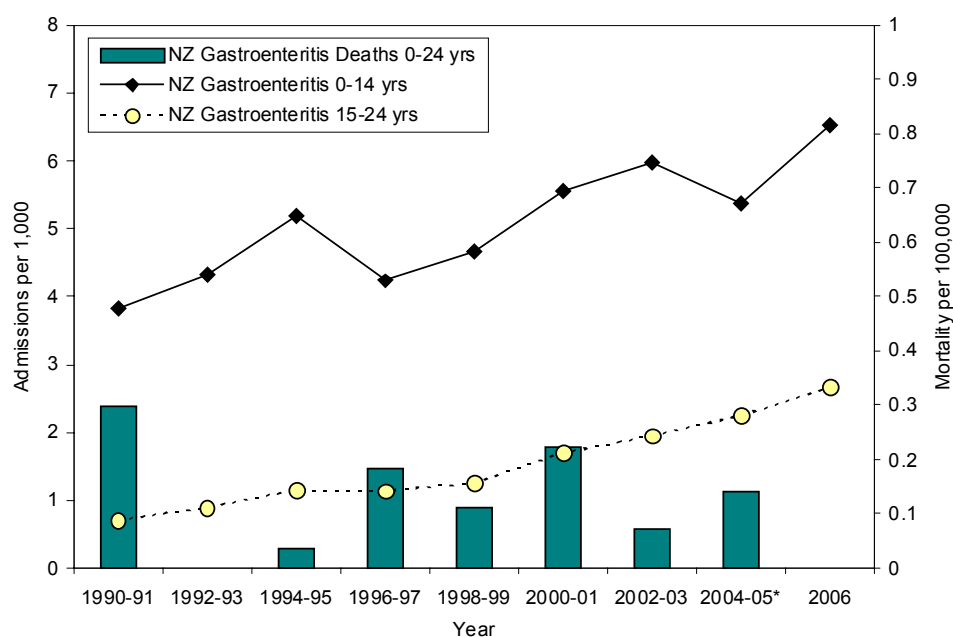
## Gastroenteritis

Acute gastroenteritis is inflammation of the stomach and intestines causing diarrhoea and vomiting. Most gastroenteritis is managed at home and is relatively harmless, if uncomfortable. Only severe cases end up admitted to hospital. Hospital admissions for gastroenteritis show the same pattern as for respiratory illness (Figure 27). Admission rates are highest for infants under 1 year old, and higher rates are seen for Pasifika children. This disease, too, is associated with poverty, with rates 1.5 times higher for children who come from NZ Deprivation decile 10 backgrounds (New Zealand Child and Youth Epidemiology Service, 2005).

The reasons why a child may end up with a more severe or even fatal case of gastroenteritis include factors related to exposure (for example, being in day care); inadequate household hygiene; factors related to the child's immune response such as poor nutrition or a stressful environment; parental/family education issues such as how to manage a vomiting child at home; and reduced access to primary health care.



**Figure 27: Hospital admissions and deaths due to gastroenteritis in children and young people 0-24 Years, New Zealand 1990-2006 (admissions) & 1990-2004 (deaths)**



*Note: \*Mortality is for 2004 year only.*

*Source: New Zealand Child and Youth Epidemiology Service, (2007)*

## **Injuries/Child abuse**

Child abuse is the dark side of New Zealand society. Although individual horrendous deaths hit headlines and draw a lot of attention, the scandal is that we continue to have very high rates of child abuse. Longitudinal studies suggest that 4-10% of all New Zealand children experience physical abuse, and 11-20% experience sexual abuse. The long-term consequences are significant (Ministry of Health, 1998, pp. 1-197). Abuse in childhood has major health consequences for the child, both immediately and in the long term. Abuse may also lead to psychological and physical damage, including depression, post traumatic stress disorder, suicide and high-risk sexual behaviour (Kendall-Tackett, 2002).

During the 1990s, New Zealand was ranked the third worst in the OECD for death rates from child abuse. The situation has improved little since then. Death rates are highest for children under 2 years of age (Ministry of Social Development, 2004c, pp. 106-107). The reality for our children is hard to comprehend: in the years 1990–2004, 135 children aged from 0-14 years died as a result of intentionally inflicted injuries (New Zealand Child and Youth Epidemiology Service, 2007). Death rates are obviously only the tip of the iceberg. The number of notifications to the Department of Child Youth and Family (CYFS) for possible abuse or neglect increases every year. In 2005 more than 59,000 notifications were recorded by CYFS, and of these nearly 80 percent required CYFS to take further action (New Zealand Child and Youth

Epidemiology Service, 2007). A recent government report (Ministry of Social Development, 2006a) listed common factors associated with an increased risk of fatal child maltreatment by adults. They included poverty, a low-level education, being unemployed, being young, poor mental health, including alcohol or drug abuse, being the victim of family violence as a child, having a history of offending, and early offending.

**Table 6: Nature of injury by age bracket, New Zealand hospital discharges for the period 2000-2004**

<b>Nature of Injury</b>	<b>Number</b>	<b>%</b>
<b>0-4yrs</b>		
Superficial Head Injury	60	17.3
Subdural Haemorrhage	54	15.6
Fractured Femur	29	8.4
Upper Limb Fracture	24	6.9
Skull / Face Fracture	21	6.1
Other Injuries	158	45.7
<b>Total</b>	<b>346</b>	<b>100</b>
<b>5-9yrs</b>		
Superficial Head Injury	15	14.2
Upper Limb Fracture	13	12.3
Open Head Wound	11	10.4
Skull / Face Fracture	6	5.7
Other Injuries	61	57.4
<b>Total</b>	<b>106</b>	<b>100</b>
<b>10-14yrs</b>		
Fractured Nasal Bones	69	16.4
Upper Limb Fracture	55	13.1
Concussion	44	10.5
Superficial Head Injury	21	5.0
Other Injuries	232	55.1
<b>Total</b>	<b>421</b>	<b>100.0</b>

*Source: New Zealand Child and Youth Epidemiology Service, (2007)*

Rates of hospital admission for children because of assault, neglect or maltreatment declined during the early 1990s, but have remained steady since 1996/1997. Rates are highest for children under 2 years of age, and over 11 years of age. Table 6 lists the types of injuries that our children are sustaining.

Poverty plays a significant role in these appalling statistics: the likelihood of assault, neglect or maltreatment is four times higher for a child from the poorest quintile.

## **Oral health**

New Zealand children have very high rates of dental caries. Rates declined up until the early 1990s, but have mostly levelled off since then, although they have increased slightly in some parts of the country. As with the pattern seen for infectious diseases and injury, Māori and Pasifika children and children from poorer backgrounds disproportionately bear the burden of poor dental health (Public Health Advisory Committee, 2003, pp. 1-28).

Water fluoridation is known to reduce tooth decay by up to 50 percent, and is particularly effective at reducing inequalities both for poor children and children from disadvantaged ethnic groups (W. M. Thomson, Ayers, & Broughton, 2003). However, fluoridation is variable around NZ, with school dental service data reporting that in 2005 just over half of all 5 year olds lived in areas with fluoridated water supplies.

Rates of dental caries in children at age 5 have slowly increased since 2002. In 2005, in fluoridated areas, approximately 70 percent of European children were decay-free, whereas less than 40 percent of Māori and Pasifika children were decay-free. The situation is worse in non-fluoridated areas, with less than 60 percent of European children and less than 30 percent of Māori and Pasifika children decay-free at age 5 (Ministry of Health, 2004a).

## ***Determinants of child health***

### **Poverty**

The economic situation for children is covered in other sections in this publication. The strong correlation between the tipping point for child poverty in the early 1990s and the increase in rates of hospital admissions for many preventable diseases illustrated in this section is of profound concern.

### **Unequal outcomes for Māori children**

Māori children are a valued part of our community and their right to wellbeing is guaranteed in both the Treaty of Waitangi and international covenants. Māori children currently make up 25 percent of all children living in New Zealand. More than a third of the Māori population is aged 14 years and younger, compared with a fifth of the general population (Statistics New Zealand, 2007).

Sadly Māori children are also a group who are most at risk of poor health caused by the unequal distribution of and access to sufficient disposable income, adequate housing, educational opportunities and effective, available and acceptable health care. Woven in with the social and economic determinants of health are factors

related to ethnicity. Māori at all educational, occupational and income levels have poorer health status than non-Māori (Harwood, 2006; Ministry of Health, 2002b).

### **Unequal outcomes for Pasifika children**

Compared with most New Zealanders, Pasifika children are disadvantaged in health, housing, education and household income (Statistics New Zealand, 2002; UNICEF, 2002). Pasifika families have lower household median annual income than all other ethnic groups, and their unemployment rates continue to be higher than for other New Zealanders. 42 percent of Pasifika people live in the most deprived neighbourhoods (Decile 10), compared with 10 percent of the overall population (Salmond & Crampton, 2002). As many as one in three Pasifika children in Auckland live in overcrowded homes (Solomon, 2002). In a longitudinal study of South Auckland Pasifika children, over a third of mothers reported that their homes were damp, and over half reported problems with cold housing (Butler, Williams, Tukuitonga, & Paterson, 2003).

So it is not surprising that Pasifika children continue to experience poorer health status than other New Zealand children. They have higher infant mortality rates than other New Zealanders (Ministry of Health, 2004c), and their hospitalisation rates for preventable diseases are higher than those of all other ethnic groups (Ministry of Health, 2003a; Percival, 2006).

### **Nutrition**

The poor nutrition of many New Zealand children is indicated by the rise in obesity (Ministry of Health, 2006a, p. 2), and micronutrient deficiencies in children (Ministry of Health, 2003b). Many children go to school hungry (S. Collins, 2007b), and foodbanks continue to have high rates of usage (see section 5).

A recent study found that one in every 10 Auckland infants is growing up with vitamin deficiencies usually associated with developing countries (Brunt, 2007). Twelve percent of Auckland toddlers aged from six months to two years do not have enough vitamin A, which is made in the body mainly from red and orange fruits and vegetables, such as peaches and carrots, and helps to protect against infectious diseases. Ten per cent of Auckland infants, despite living in a country with bountiful sun and outdoor space, do not get enough vitamin D, a substance the body makes when it is exposed to sunlight. Vitamin D helps the body to absorb calcium and other minerals to build bones, and thus children with Vitamin D deficiency may develop rickets, with soft bones, bow legs, a curved spine and poor teeth. The study also found that a quarter of Auckland infants were iron deficient. In the USA only 10 per cent of infants are iron deficient, because food for pregnant women and babies

commonly contains iron supplements. Here only infant formula is fortified, and some families cannot afford this.<sup>49</sup> Māori and Pasifika children are most at risk of iron deficiency (Brunt, 2007).

Obesity is related to later diabetes and cardiovascular disease (Poulton & Caspi, 2005), and in children can cause obstructed breathing during sleep (Nixon, 2006). In the USA, the highest rates of obesity occur among population groups with the highest poverty rates and the least education (Drewnowski, 2004). In New Zealand, the diets of low-income adults are likely to contain too little fresh fruit and vegetables, milk and cheese (Metcalf, Scragg, & Davis, 2006) to maintain a healthy weight. The impact of low income on obesity is no doubt magnified by the low cost of energy-dense foods. Diets based on refined grains, added sugars, and added fats are more affordable than the recommended diets based on lean meats, fish, fresh vegetables and fruit. In New Zealand cultural norms may dictate a higher calorie diet in some groups (Ministry of Health, 2003b).

### **Access to healthcare**

Access to health services for preventive care and treatment is essential for children's good health. While secondary and tertiary care for children in New Zealand is provided at no cost, there are often costs in accessing primary care. The additional costs of filling prescriptions may present further barriers to treatment. The introduction of primary health organisations (PHOs) in 2002 meant a large improvement for many children (Reid, 2006), but costs remain a barrier for some. In particular, the costs of after-hours care remain prohibitive for many families, resulting in delays in seeking appropriate health care. This is very important because children often get sick and injured after-hours, and there have been many examples of families delaying bringing their child for medical care because of the cost of after-hours services. This may result in the illness progressing and unnecessary hospitalization.

Table 7 below is based on a 2007 telephone survey undertaken by CPAG of 51 different primary healthcare services around the country that provide after-hours services, showing the costs for children.

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<sup>49</sup> The best way to make sure infants got the vitamins they needed was to keep fully breastfeeding a baby for at least four to six months and then gradually supplement breast milk with iron-fortified infant formulas rather than cow's milk.

**Table 7: General practice after- hours services costs**

District	Under 6 years	6 to 16-18 years (depending on circumstances)
Auckland	Free	\$10 - \$50
Bay of Plenty	Free (hospital) - \$120	Free (hospital) - \$120
Canterbury	\$13- \$42	\$28 - \$57
South Canterbury	Free - \$30	\$17 - \$45
Capital & Coast	\$25	\$50
Counties Manukau	Free	Free - \$25
Hawkes Bay	\$5 - \$6	\$21 - \$26
Hutt	\$12 - \$25	\$45
Lakes	Free - \$22	\$21 - \$45
Mid Central	\$8 - \$35	\$10 - \$40
Nelson Marlborough	\$10	\$40
Northland	Free - \$25	\$15 - \$55
Otago	Free - \$32	\$15 - \$57
Southland	\$17 - \$40	\$30 - \$55
Tairāwhiti	Discretion Free - \$25	Discretion Free-\$35
Taranaki	Free - \$27	\$25 - \$40
West Coast	Free - \$10	\$25 - \$50
Waikato	Free - \$5	\$20 - \$25
Waitemata	\$6 - \$20	\$20 - \$35
Wairarapa	Free - \$5	\$25 - \$47
Wanganui	Free - \$5	Free (hospital) - \$29

- *Due to small sample sizes some sampling errors may occur (for example it is unlikely that after-hours treatment is free for all under-6s in the Auckland area, where only three practices were surveyed). The wide range of fees shown remains valid.*
- *This survey does not cover rural practices, and it appears that most rural people travel to small towns or the nearest hospital service.*
- *Many areas also have “discretion” for the doctor to lower the fees and set the price. Being a “registered” patient or having a Community Services Card affects charges.*

*Source: Child Poverty Action Group, National Telephone Poll, August 2007*

The variability in Table 7 can also be seen during normal hours. For example, on the North Shore only 26 percent of GPs give free or low-cost care to under sixes. In neighbouring Waitakere the figure is 90 percent (Donnell, 2008).

Access to quality primary health care is associated with better health outcomes, improved preventative care, and reduction in hospitalisations (Starfield, Shi, & Macinko, 2005). New Zealand’s Primary Health Care Strategy recognises this, and

identifies a strong primary health care system as being central to improving the health of New Zealanders and tackling inequalities in health. Its vision is for people to become attached to locally-based primary health care services that improve their health, are easy to get to, and co-ordinate their ongoing care.

There are currently approximately 81 PHOs in NZ. In 2006, 98 percent of children aged 0-14 years were enrolled in PHOs. Despite this there are instances of families having difficulties enrolling in PHOs, with GPs closing their books to new registrations.

People on low incomes or living in low-decile areas are more likely to be frequent users of GP services (Public Health Intelligence Unit, 2004, pp. 1-53). The most common reasons parents give for their child not seeing a GP is cost. Other reasons include lack of transport or inability to get an appointment soon enough (Ministry of Health, 1997). Surveys report that up to 13 percent of children and 20 percent of young people have experienced difficulties accessing a GP, with the most common reported reason being cost. Clearly cost remains a barrier to adequate healthcare for many children in low-income families, and this can significantly affect their short and long term health.

### **Immunisation rates**

Vaccination against childhood diseases such as whooping cough has a significant impact on child health, and is one of the most cost-effective public health interventions. Effective immunisation requires population coverage levels of at least 90 percent. The latest National Immunisation Coverage Survey (Ministry of Health, 2007a) found that the overall coverage for children aged 2 was 77.4 percent. This is an improvement on 60 percent in 1991/2. There are significant equity gaps, with only 69 percent of Māori children immunised. These rates – among the lowest in the developed world – are very disappointing, and suggest that New Zealand children are still at high risk of preventable diseases.

Effective population vaccination also depends on children receiving the vaccinations on time. Again, New Zealand's record remains poor, with only 42.4 percent of children overall and only 29.9 percent of Māori children receiving vaccines on time.

The result of poor immunisation rates is seen in high rates of disease. New Zealand in particular has high rates of whooping cough, with levels three to four times higher than comparable countries such as Australia, the UK and the USA.

Immunisation rates are frequently used as a measure of the effectiveness of preventative health services. New Zealand ranks 23rd out of the 24 OECD countries for immunisation rates, and our low immunisation rates are a major contributor to the poor health ranking seen in Figure 23.

Those least likely to be immunised are children in low-income families. Recent data from the National Immunisation Register shows that only 78 percent of children from

the poorest deciles are fully immunised at 1 year of age, compared with 86 percent of children from the richest deciles (Ministry of Health, 2007a).

Reasons for low immunisation rate include access to doctors and other providers, and parental and community knowledge and attitudes. Recent research has highlighted that doctor's practices that have low coverage have a high percentage of children in poverty, and of children who are not enrolled early (Grant et al., 2007).

Enrolling children at birth with a known general practice, and having good tracking systems to follow them up, appears to be vital to improving New Zealand's abysmal rate of immunisation coverage. Unfortunately, children from poor backgrounds are often very mobile, making tracking and offering services difficult.

## ***Conclusions***

New Zealand children have appallingly high rates of preventable illness, much worse than almost any other OECD country. When we look at the trends over time for respiratory illnesses, skin infections, gastroenteritis, child abuse and injury, there is a clear pattern of rates getting worse through the 1990s, and then slowly levelling off in more recent years. This pattern is similar to rates of child poverty. However, rates of preventable illness among children remain much higher than in the 1980s.

Poverty is a key determinant of children's health in a range of ways. Increased exposure to disease and infection through poor housing and overcrowding, stress and poor nutrition depressing a child's immune system, lack of awareness of children's health needs, and financial barriers to accessing healthcare, all contribute to our children's poor health. What is even more frightening is the way in which sickness in the child today affects future outcomes into adulthood in a range of health, social and economic ways. **Damage done in childhood cannot be undone in adulthood.**

Clearly, as other sections of this report show, poor children in New Zealand became poorer throughout the 1990s. This is likely to be the major contributor to the dreadful health statistics. What is concerning is that, despite the fact that in recent years the country has experienced an economic boom, child health statistics may have stopped getting worse but they are not improving. Economic prosperity has not improved the health of New Zealand's most vulnerable children. It is of significant concern that if the economy does not continue to prosper, we can expect to see our already dismal child health statistics worsen again as poverty prevention and income protection measures are still inadequate.

Particular attention needs to be given to Māori and Pasifika children, who continue to suffer significantly more than children from other ethnic backgrounds. There are a range of poverty-related and other reasons for these inequities, but it remains unacceptable and unjust that these children carry such a high burden of ill-health.



## **CPAG key recommendations**

- Give children's health a much larger slice of the national health budget.
- Develop an intersectoral strategy to reduce socio-economic inequities in order to improve child health, particularly from pregnancy through to age 3, when the greatest potential exists for achieving improvement.
- Provide free accessible primary health care and medicines for children and young people under 18 years, 24 hours a day, 7 days a week.
- Improve children's access to better nutrition, including making breakfast in schools available unconditionally to all children in all Decile 1, 2 and 3 schools.
- Improve access to immunisation services to improve immunisation coverage in all groups to 90 percent by 2010 and 95 percent by 2012. This needs to include enrolling all children with a known general practice and well child provider at birth.

## **9. A geography of poverty: Housing and neighbourhoods in New Zealand**

**Donna Wynd & Alan Johnson**

*[We have] a crisis of shoddy homes, of people in desperate need, and a government in denial.*

(Harawira, 2007)

### ***Introduction***

Housing is the "fulcrum" through which macroeconomic policy is translated into social outcomes (Grimes, Kerr, Aitken, & Sourell, 2006). Current housing problems both stem from and exacerbate the inequalities described elsewhere in this report. Major redistribution of income in New Zealand over the last thirty years has fundamentally changed the way people live, in their own homes and in the neighbourhoods of which they are a part. Fewer families now own their own homes, while low-income families are increasingly likely to live in rented and/or poor quality housing, including caravans and garages. Children in poorer neighborhoods generally also have poorer access to medical and social services.

Housing is most families' largest single item of weekly expenditure. As rents and mortgage payments rise, there is less to spend out of disposable incomes and less

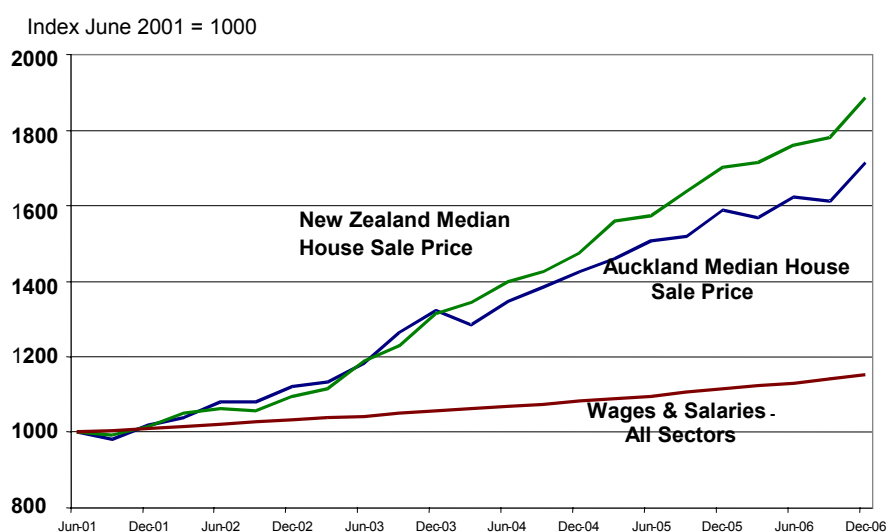
left to meet the needs of children. Problems such as overcrowding reflect attempts to deal with overwhelming demands on scarce income. It is children who bear the brunt, making housing a key avenue for policy intervention.

Housing and neighbourhood policies that deal with the many disadvantages faced by low-income households are the key to providing stable, safe, healthy living arrangements for children, and supporting their development and education. This section considers changes to housing and neighbourhoods, and their implications for children.

## ***Housing and policy outcomes***

The most obvious trend in housing since 2000 has been rising costs. Housing affordability continues to decline, with the median priced house now well beyond the means of the average income earner (Figure 28). While house prices are now increasingly out of reach for middle-income wage and salary earners, low-income earners have been shut out of home ownership for some years.

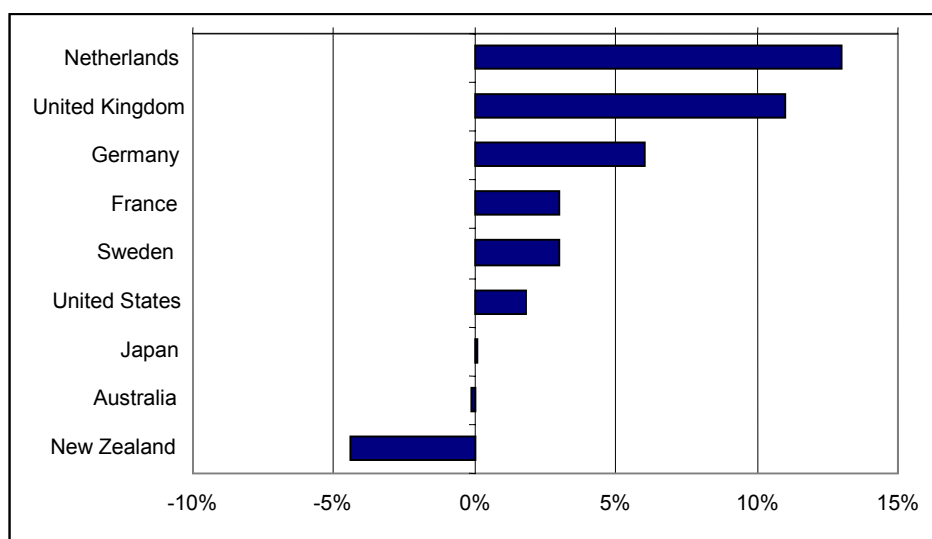
**Figure 28: Relative changes in median house prices and wages and salaries**



*Source: Real Estate Institute of New Zealand; Statistics New Zealand*

Decreasing housing affordability is reflected in falling rates of home ownership, now at their lowest level since the early 1950s (The Salvation Army Social Policy and Parliamentary Unit, 2007, p. 33). New Zealand has had the largest decline in home ownership in western countries, with changes in home ownership rates mirroring changes to income distribution. While some countries, particularly those in the European Union, have lower overall rates of home ownership than New Zealand, their rates are actually increasing (Figure 29).

**Figure 29: Changes to home ownership rates in selected countries, 1980/81 - early 2000s**



*Source: Derived from The Salvation Army Social Policy and Parliamentary Unit (2007); European Union, <[www.europa.eu](http://www.europa.eu)>*

Low-income households are now more likely to rent than own a home. Over the past five years rents have generally keep pace with wages and salary movements, although this is not universally the case. Minimum-wage workers in Auckland now need to work an average of about 32 hours per week just to pay the rent. There are however emerging signs of a relative increase in rents, especially in Auckland region where population growth pressure is the greatest. Recent rent increases probably reflect a number of factors, among them a market response to the fact that house prices have plateaued and rents presently represent a very poor rate of return for residential property investors.

For low-income households, especially those on benefits, recent rent rises are another source of financial stress. The resulting hardship is multi-faceted: parents often need to work two or more jobs to provide for their families, and overcrowding and high rates of transience are the norm for many families. Low housing affordability disproportionately affects Māori and Pasifika families, as indicated by the high incidence of overcrowding among these groups (Ministry of Pacific Island Affairs, 1999; The Family Centre Social Policy Research Unit, 2006, p. 11).

Renting need not be a bad thing; however, New Zealand tenants have few rights and renting is often synonymous with high rates of transience. Transience is stressful for parents and children and has implications for children's schooling. Analysis of 2006 census data shows an increasing proportion of children living in low-income suburbs, and in rented accommodation. These suburban areas include parts of Manukau and Auckland City, Porirua City, Wanganui, Poverty Bay and the Bay of Plenty. Rates of home ownership in rural areas are generally higher than in urban centres; however,

large numbers of rural children live in rented accommodation. While some families who rent are in Housing New Zealand accommodation, and are thus more likely to have stable housing, many more are not. According to one South Auckland school nurse, three quarters of the 900 children at her school are transient (Dye, 2007).

The prospects of low-income families being able to access secure accommodation in the near future appear remote. DTZ New Zealand reports that home ownership rates in Auckland are projected to drop from 64 per cent in 2001 to 58 per cent by 2016 (DTZ New Zealand, 2007). Therefore, more families will be renting, and in all likelihood facing the same difficulties as current renters.

Despite the projected rise in the proportions of people renting, the government has declined to put in place any measures to make renting more secure for tenants. In an interview with Radio New Zealand, Associate Justice Minister Clayton Cosgrove argued that there is no evidence of a “burning desire on the part of that market to have long-term tenancies” (Cosgrove, 2007), suggesting that regulation on this issue would interfere with the working of the market by impeding landlords’ ability to sell their properties at will. Instead, the government proposes to foster harmonious relationships between tenants and landlords by giving either party the ability to sue for exemplary damages, in the event that the other does not meet their obligations. It is unlikely that such measures will really provide tenants with greater legal protection. As a group, tenants face a number of barriers to legal processes when disputes with landlords arise. While tenancy law is not overly complex tenants are already less likely to seek legal remedy for tenancy disputes. At present 80-90 percent of cases taken to the Tenancy Tribunal under the present Residential Tenancies Act are taken by landlords. It is difficult to see how augmenting existing rights with the right to sue for exemplary damages will improve the tenure security of low-income families and their children.

## **Overcrowding**

In 2006 the average number of members per New Zealand household was 2.6, down from 2.8 in 2001.<sup>50</sup> Nationally, the number of people per house has been falling for many years, reflecting smaller household sizes. This trend is not universal, however, and in some areas household sizes are not only well above the national average, but have increased. Manukau City leads with an average 3.4 persons per household, up from 3.3 in 2001. Yet this figure masks the diverse range of households within Manukau itself. In the poorest parts of Manukau, the average household has 5.3 persons, and in parts of Mangere and Otara, the average is 4.8. These figures suggest a significant overcrowding problem. Despite good economic growth, low

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<sup>50</sup> All data is Statistics New Zealand census data unless otherwise stated.

unemployment and the extension of the Accommodation Supplement in 2004, overcrowding in some areas, particularly Otara, became worse between 2001 and 2006. For the children in these households, life has become more difficult.

Overcrowding is also suggested by the high percentage of households containing two or more families. Nationally, only 2.7 percent of households have two or more families residing in them. In some parts of Manukau City, this figure is as high as 22 percent, while parts of Otara have up to 21 percent of households with two or more families. Similarly, nationally a mere 0.2 percent of households have three or more families in them, whereas in some parts of Mangere and Otara this figure rises to 4 percent.

Overcrowding in Auckland's poorer suburbs is one of the standout features of housing changes over the last five years. While some of this can be blamed on rent increases, the relationship is not as clear-cut as intuition suggests. Rents in some areas have risen with no net effect on household size, while in other areas relatively modest rent increases have been accompanied by significant increases in household size. What appears to be happening is a rational response by low-income families increasingly unable to meet day-to-day expenses: families are doubling up in the least expensive accommodation available. In some cases this accommodation is provided by Housing New Zealand.

The biggest increases in household size have occurred in areas with high concentrations of state housing, particularly Manukau, Glen Innes and Mount Roskill. The link between source of income and overcrowding is unclear. While the narrative of beneficiary clusters has gained some currency in the media, the working poor are as likely or more likely to live in overcrowded conditions than those households reliant on benefits. Given the long and/or highly variable hours many parents work, and the lack of childcare facilities available in many low-income neighbourhoods, living with relatives who can care for the children while their parents work makes sense.

Crucially, in high-growth areas such as Manukau, increases in housing stock have simply not kept pace with population growth. Between 2001 and 2006 Manukau City's population grew by the population of Nelson. In parts of Manukau all the increase in population was attributable to increases in the number of residents per dwelling; that is, no new housing stock was built to accommodate the increase in population. In the poorest parts of Manukau, Auckland, Waitakere and Papakura, an average 25 percent of the increase in population growth recorded between 2001 and 2006 was simply due to more people crowding into existing dwellings. Housing is being built but not, it seems, for the poor.

## **Housing and children's wellbeing**

Poor quality and inadequate housing is particularly damaging to children's health, as section 7 explains. The links between overcrowded and substandard housing and childhood illness are well established, particularly for respiratory illnesses and infectious diseases. As well as affecting their physical health, housing also affects children's social wellbeing.

New Zealand studies have shown that overcrowding is strongly correlated with meningococcal disease (Baker et al., 2000) and is likely to have been a significant contributor to the meningococcal epidemic that harmed many New Zealand children. The spread of meningococcal disease to the general population provides a salutary warning: illnesses associated with poverty do not always remain confined to the poor.

Overcrowding is also a factor in tuberculosis among children, with outbreaks occurring in suburbs with the highest rates of overcrowding (Auckland Regional Public Health Service, 2006, p. 149)

As well as overcrowding, poor quality housing also has a negative impact on children's health. In New Zealand about one third of houses have no insulation, and most families heat only the living room. Insulating houses results in better health, greater school attendance, and fewer visits to the doctor (Howden-Chapman et al., 2007).

Low-decile areas are more likely to have poorer access to medical services. Auckland DHB has 96.3 GPs per 100,000 residents; Counties-Manukau has 60.6; and Whanganui, one of the poorest areas in the country, has 52.7. The national average is 75.0 (New Zealand Health Information Service, 2003). In Manukau there is a need for more mental health services. There is also a need to address the relative under-supply of services in other areas of high deprivation, for example in the provision of dental care (Abas, Vanderpyl, Robinson, & Crampton, 2003).

Education outcomes are also intimately related to housing and neighbourhood trends. Given the high percentages of Māori and Pasifika children living in low-decile areas with high rates of transience and overcrowding, it is not surprising that for many of these children, educational attainment lags behind that of others (Ministry of Education, 2006). The Ministry of Education (2007c) has published a draft Māori education strategy that aims to ensure Māori "are able to enjoy education success." Unfortunately, the strategy ignores barriers to education such as transience caused by insecure housing, and instead focuses on "personalised learning" that encourages "families and whānau to become more involved in their [children's] learning and take greater personal responsibility for it" (Ministry of Education, 2007c). The attention currently being paid to high rates of transience and poor educational outcomes for Māori boys in particular indicates that greater efforts are needed to establish these children in healthy, stable housing as a precursor for providing stable and effective schooling.

## ***Neighbourhood segregation in New Zealand***

*“A neighbourhood is an area where the majority of people know by sight most of those who live there and probably recognise everyone in their own age group; know all the significant buildings and the central focus of the area – shops, schools, libraries, children’s playgrounds...”*

(Seabrook, 1984)

In 2000 the University of Auckland’s Department of Geography showed that neighbourhoods had become more segregated by income and ethnicity between the 1986 and 1996 census (Friesen, Murphy, Kearns, & Haverkamp, 2000). This trend has continued in 2001-06. Census data shows that overall incomes increased during this period, from a median household income of \$39,000 in 2001 to \$50,300 in 2006 (excluding areas outside territorial authority areas). However, this increase was not evenly spread across the country. While real median incomes rose in some areas, in others they fell. In other words, New Zealand’s emerging income gap had manifested itself in the spatial arrangement of individuals and households. This mirrors research from Britain showing that fewer areas are “average”; rather neighbourhoods are increasingly advantaged or disadvantaged. These divisions have not been seen since the 1930s, and have re-emerged as inequality has risen (Ward, 2007).

Treasury, too, has found evidence of increasing social segregation. It looked at differences across regions and found deprivation to be relatively concentrated: in 2001 Auckland contained 36 percent of all deprived neighbourhoods,<sup>51</sup> and in Northland and Gisborne 24 percent of the population lived in deprived neighbourhoods (The Treasury, 2001b). In 2006 Auckland City contained 26 percent of all deprived neighbourhoods, but between them Auckland, Waikato and Bay of Plenty contained a little over half of New Zealand’s most deprived areas (Salmond, Crampton, & Atkinson, 2007).

Evidence of neighbourhood segregation can be seen in Figure 30. It shows the relationship between the percentage of households on less than \$30,000 a year (ie a figure below the median household income) and the percentage of sole parents in Auckland City unit areas.<sup>52</sup> Not all sole parents are poor, and not all the poor are sole parents. However, the *New Zealand Living Standards* report (2006) showed that sole parent households are more likely than the general population to have low living standards, with over 50 percent of sole parent beneficiaries living in significant or severe hardship. If neighbourhoods were not stratified, then we would expect to see

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<sup>51</sup> Decile 10, or the poorest 10%.

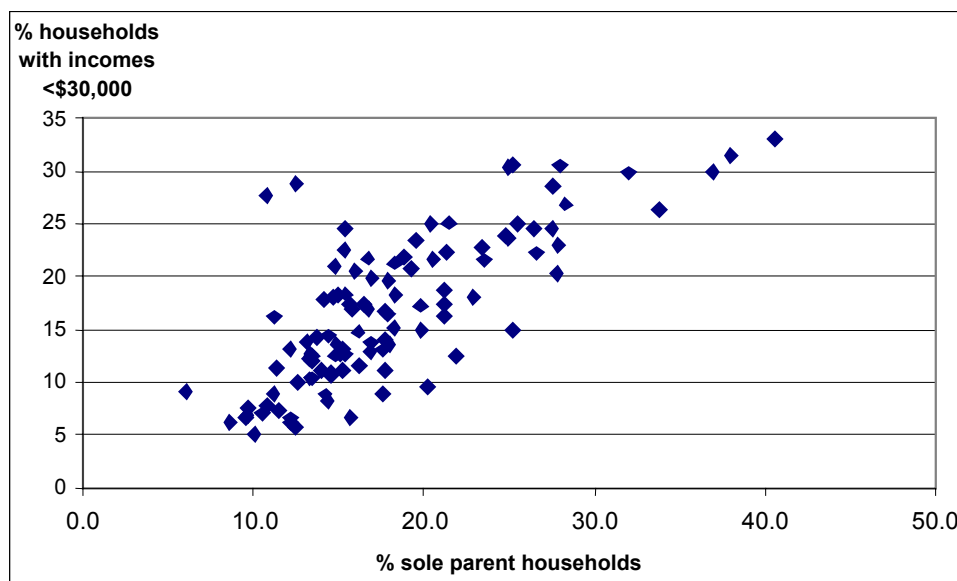
<sup>52</sup> Auckland City was chosen because it has some of the highest and lowest incomes in the country. A similar pattern is seen in Manukau City, but less so in Wellington, where stratification occurs across the region rather than within territorial authorities.

sole parents distributed fairly evenly across all suburbs, regardless of income. Instead, Figure 30 clearly shows that they are clustered with other low-income households in certain suburbs.<sup>53</sup>

Reasons for like households clustering are the subject of much academic debate. However, it seems likely that, when people have a choice, people simply prefer to live with others whom they perceive as having common interests, concerns and status. For example, those on high incomes probably prefer to live with other high-income earners whose common values might be signaled by such things as high-end motor vehicles.

Low-income families have far less choice about where they can live, and are likely to live in less desirable suburbs. Due to popular assumptions that equate low incomes with delinquent behaviour, such suburbs often become less desirable as the concentration of low-income families increases, setting up a cycle of social separation and disadvantage.

**Figure 30: Percent low-income households (<\$30,000) by % single parent households, Auckland City.**



*Source: D Wynd, derived from Statistics New Zealand 2006 census data*

<sup>53</sup> In general this pattern can also be seen nationally, but sampling errors due to small sample sizes mean outliers make the pattern far less clear.



Stratification also occurs in rural areas. Those with marketable skills often move elsewhere, while those who remain behind are more likely to be unskilled and/or unemployed. Rural Northland, Waikato and Poverty Bay all have high unemployment, low incomes and, in the case of Northland, notoriously substandard housing (Harawira, 2007; The Family Centre Social Policy Research Unit, 2006, p. 68). The overall picture for rural New Zealand is, however, less clear, with evidence of “white flight” from urban centres back to small towns. This may intensify the existing stratification in rural areas such as Northland (The Family Centre Social Policy Research Unit, 2006, pp. 33-34).

It is also possible to infer increasing neighbourhood segregation by considering ethnic concentration. Māori and Pasifika families are more likely than the general population to have low incomes, so increasing concentrations of Pasifika and Māori in certain areas would indicate higher rates of poverty in those areas as well. Although the picture is mixed, due to improving incomes overall and gentrification of some areas, many of the suburbs with the highest concentrations of Māori and Pasifika peoples in 2001 had even higher concentrations in 2006.

More importantly, more children are growing up in these communities. Manurewa, Clendon and Weymouth, which are among the poorest suburbs in the country, recorded higher concentrations of children and young people in 2006 than in 2001. Papakura provides the starkest example, with some parts of the district recording an increase of 5 percentage points in the proportion of 0-19 year olds, while better-off areas, sometimes as little as 1 kilometre away, recorded a fall.

The overall picture is one of children and teenagers, especially Māori and Pasifika children, increasingly living in overcrowded, low-income households which are becoming more confined to a small number of suburbs. Clearly there is an ethnic dimension to low-income suburbs and the problems they experience. There is also a gender element, with sole mothers comprising many of those caught by low benefit incomes and relatively high housing costs in low socio-economic neighbourhoods. This phenomenon has been dubbed “the feminisation of poverty” where the face of adult poverty is far more likely to be female than male. This feminisation of poverty both co-exists with and overlaps the “browning” of poverty, and its disproportionate impact on the young, that has occurred in New Zealand over the past twenty years.

### ***Does segregation matter? The neighbourhood effect***

Large income disparities and the resulting concentration of low-income households are associated with a wide range of problems, some of which New Zealand is now attempting to address. In attempting to explain the concentration of poverty, crime and unemployment in poor areas, researchers have turned their attention to the effects of neighbourhoods themselves. Not that neighbourhood-level effects are confined to their source: Treasury refers to neighbourhood effects a “spillover” (The

Treasury, 2001b, p. 10) that could affect the social cohesion of the country as a whole.

Although the paths through which disadvantage is reproduced are debated, the “neighbourhood effect” has been recognised as influencing people’s opportunity for education, training and employment. This in turn can mean that neighbourhoods themselves “can be a strong predictor of...health, family structure and lifespan” (Ward, 2007).

In general, areas with low socio-economic status (SES) have lower levels of some types of social capital,<sup>54</sup> less social support, and substantially higher mortality rates than areas with higher SES, although SES does not fully account for the differences seen (Cohen, Farley, & Mason, 2003). Children in areas of high deprivation are more likely to suffer maltreatment, although this varies. Child abuse levels are higher where there is a lack of attachment to a community and low levels of trust between neighbours. Differences in disposable income, especially differences among people in the bottom half of the income distribution, are associated with low levels of trust (Gustavsson & Jordahl, 2007). In the New Zealand context, high rates of transience may contribute to a lack of attachment to the community.

Often, those residents who can leave deprived neighbourhoods do so, leaving behind the most economically and socially impoverished. This not only increases segregation but also creates a cycle of diminishing social capital and increasingly poor outcomes for children (Taylor, 2004, p. 71). Where residents are not very mobile and form networks predominantly with others in the neighbourhood, those links paradoxically may make it more difficult to transcend the conditions in which they live (Granovetter, cited in Warr, 2005).

Neighbourhood segregation may also be exacerbated by lack of trust between different socio-economic groups. This may mean that poor families are less likely to engage with different groups who have the potential to help them find jobs or obtain access to services.<sup>55</sup> There is a clear relationship between low labour force participation and neighbourhood deprivation.

While current welfare and employment policies emphasise getting people into paid work, the realities of physical and social isolation, including poor access to services, fewer employment opportunities, and lack of community support (Abas, Vanderpyl, Robinson, & Crampton, 2003), often preclude this. In addition, policies that drive a wedge between the disposable incomes of different groups in the lower parts of the

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<sup>54</sup> A full discussion of social capital, including the views of some of its detractors can be found in (Salvation Army Social Policy and Parliamentary Unit, 2007, pp. 74-80)

<sup>55</sup> Although not considered here it is likely that a similar story could be told about immigrant Asian and Middle Eastern/African communities. These tend to be highly concentrated, and Middle Eastern/African households have a median income of \$16,100 (Census 2006).

income distribution can be expected to increase conflict between low-income groups (Wilkinson, 2005).

Physical disorder in neighbourhoods further adds to neighbourhood stigma. It has been shown to be significantly related to residents' self-esteem, and may have a stronger effect on wellbeing than the poverty rate (Haney, 2007). Poorly maintained properties make neighbours feel threatened or unvalued. "The physical stigma of poverty and the implied tolerance of deviant behaviors in areas marked by graffiti... may overwhelm the ability of people to act cooperatively" (Cohen, Farley, & Mason, 2003), and reduce residents' participation in their local communities (Warr, 2005). While establishing links between residents, social and government agencies and across neighbourhoods is an important part of dealing with the exclusion experienced by many young people, this is difficult in an environment where resident turnover may be high due to high concentrations of rental properties.

### **Children and neighbourhoods**

Children are part of wider social groupings, and families are not always able to protect their children from damaging inequalities in the world around them. There is now a body of evidence that the culture of poor neighbourhoods impacts on children's relationships with others in the area, their experiences and links with other social groups and official agencies, and their own self-image (Haney, 2007).

In New Zealand, stigmatisation of poor neighbourhoods such as Otara is unfortunately common. Children in Otara have publicly rejected the stereotypes of themselves and their families that they see in the media. Because there is such a significant ethnic component to poverty in New Zealand (The Treasury, 2001b), it is easy to assume that it is a "Māori problem" or a "Pacific Island problem," or even a state housing problem. For many children the stigma of poverty is thus overlaid with their Māori or Pasifika identity.

Shabby neighbourhoods, with little prospect of improvement, combined with media images graphically depicting the gap between them and others, can be devastating for the self-image of children and young people. One teacher in a low-decile Auckland primary school quotes her students referring to their suburb as "a ghetto".<sup>56</sup> Similarly, during Auckland City Council consultations in Otahuhu, residents referred to the "need to deal with Housing New Zealand slum areas" (Auckland City Council, 2007). Similar sentiments have been reported in Australia, where people living in a low-income area referred to it as "the Bronx of Geelong" (Warr, 2005).

So what can we do for the children in these areas that might start to reverse the damage? Treasury (2001b, p. 12) notes that "education is key" as it raises the future

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<sup>56</sup> Personal communication, 2007.

earning prospects of children. While government policy makes some allowance for economic disadvantage through its additional funding to schools in poorer neighbourhoods (so-called decile funding), this funding does not appear to be sufficient to address the achievement gap between students from these schools and those from middle class schools (The Salvation Army Social Policy and Parliamentary Unit, 2007, p. 7, and section 11 of this report).

### **Tackling problem neighbourhoods in New Zealand**

Some New Zealand communities have “seemingly intractable social problems such as long-term unemployment, family violence, drug and alcohol abuse and youth crime” (Taylor, 2004). In 2001 the government responded by setting up the Stronger Communities Action Fund (SCAF), run through Child Youth and Family. This was designed to help communities “develop capacity” and to secure better outcomes for children and families (Taylor, 2004, p. 68). In a tacit acknowledgement that some communities were already irreparably damaged, the communities selected for the trial were required to demonstrate the “existence of community networks” (Child Youth and Family, 2004). The project was based on the idea that social capital and community networks, working with service providers and official agencies, can help people exchange information (such as availability of work) and build trust.

While SCAF had some positive results, it was unlikely to succeed in improving outcomes for children and families in the absence of measures that addressed underlying economic deprivation (Taylor, 2004). In 2006 the project was terminated.

The criteria communities needed to fulfill in order to even get SCAF funding suggest that policies and plans to improve opportunity did not go to the communities that needed them most. As Treasury has observed, poorly resourced communities with low levels of trust put New Zealand’s social cohesion at risk. It is not clear why SCAF was discontinued, as it is not credible to suggest that no New Zealand communities needed additional assistance in 2006. Since 2006 the Ministry of Social Development has instead put in place programmes to deal with youth gang violence and a plan to “improve outcomes for children and young people in Counties Manukau.” However, these do not address wider issues around deprivation, nor are they guaranteed any long-term funding.

The other lever to improve the social capital of communities appears to be “work first” welfare polices.<sup>57</sup> Here, the underlying assumption is that participation in the workforce builds social connections. However, this policy is flawed in cases where people, for many valid reasons including caregiving, are unable to work. Moreover, in some cases workforce participation may undermine, rather than increase, social

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<sup>57</sup> See section 5 of this publication.

capital, for example if it disrupts the local caregiving networks relied on by many low-paid parents, and/or takes employed adults out of their families and neighbourhoods for long periods of time.

## ***Conclusion***

A recent Salvation Army report on housing recommended the establishment of a fund to build affordable housing and to assist with the provision of mortgages to help families into their own homes (The Salvation Army Social Policy and Parliamentary Unit, 2007, p. 12). While the government has made a commitment to building more state housing, the amount it proposes to build falls far short of what is required. Between 2001-2006 approximately 4,500 state housing units were added to Housing New Zealand's stock (The Salvation Army Social Policy and Parliamentary Unit, 2007, p. 44). However, this pales in comparison to the British government's recent commitment to build 240,000 houses a year in England every year until 2020 (a total of 3 million). On a population basis this equates to 20,000 state houses a year in New Zealand.

The Salvation Army's report also called for changes to the Resource Management Act, to enable councils and planning agencies to make provision for affordable housing, and impose inclusionary zoning provisions in all regional and district plans, and to enable councils to charge levies so they can begin landbanking for affordable housing within their district or region. Similarly, the report suggested that Housing New Zealand needs to be given a specific role of landbanking for affordable housing in high growth areas such as Manukau City (The Salvation Army Social Policy and Parliamentary Unit, 2007, p. 13).

Given the strong influence which neighbourhood appears to have in determining outcomes for young people, there also needs to be incentives to encourage mixed tenure housing developments (The Salvation Army Social Policy and Parliamentary Unit, 2007, p. 13).

Building social and economic bridges between different social groups is vital to maintaining the social cohesion New Zealanders have mostly enjoyed to date. Ignoring the needs of low-income families because they are out of sight, out of mind, will not help to build a stronger society in the long term.

CPAG supports these suggestions. There needs to be a renewed focus on the housing needs of children. Housing policies that highlight and amplify the differences between the "haves" and the "have nots" fail to provide vulnerable children with opportunities, and undermine the ability of their families to properly care for them. Through the provision of affordable housing for all families, we can begin to redistribute in favour of the children who have paid such a high price for the income inequality that is increasingly characterizing New Zealand's economic and social landscape.

## ***CPAG key recommendations***

- Commit to building more state houses, especially in areas of high need.
- Extend the Welcome Home loan scheme to enable more families in more areas to purchase their own homes.
- Establish a fund to landbank for affordable housing in high growth areas.
- Change the Tenancy Act to make it easier to establish long-term tenancies in order to reduce transience among renters.

## **10. The 20 hours free ECE Policy**

**Jenny Ritchie<sup>58</sup>**

### ***Introduction***

Early childhood education (ECE) policies have a profound impact on children and their families. Changes within the early childhood sector have seen greater reliance on private provision of early childhood facilities, whilst providers such as Playcentre, Kōhanga Reo, state kindergartens, and not-for-profit private and community-based education and care services have struggled for funding and recognition.

Increasing reliance on the for-profit private providers has given rise to vocal business owners/managers, keen to maintain their position as a dominant provider group and arbiter of children's early educational needs.

Despite intense lobbying by these providers, the government has remained firm in its commitment to the wider ECE sector, and real improvements in quality indicators, such as educator qualifications, funding and access to ECE, have been made.

### ***Benefits of quality early childhood education***

Quality early childhood education has been demonstrated nationally and internationally to have long-lasting benefits for both individuals and society (Wylie, Hodgen, Ferral, & Thompson, 2006, p. 146). The longitudinal New Zealand Competent Children Study continues to demonstrate that children who start their ECE experience earlier, and thus have a longer time in a quality early childhood programme, do better educationally:

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<sup>58</sup> Associate Professor Early Childhood Teacher Education, Unitec - Te Whare Wānanga o Wairaka.

*Children who started ECE between the ages of 1 and 2 had higher scores than those starting after age 3, and those who had fewer than 24 months' ECE experience had lower scores than others for attitudinal competencies (e.g. communication, perseverance, self-management).*

(Wylie, Hodgen, Ferral, & Thompson, 2006, p. v)

Longitudinal studies demonstrate that children who have attended quality early childhood programmes enjoy life-long benefits. And the benefits gained extend beyond the children. Parents and whānau also benefit, since ECE provision not only enables them to pursue education and/or employment, but also to learn more about and contribute to their child's education. In some instances it may free up time to pursue personal interests, undertake whānau responsibilities and contribute to the community.

A key component of "quality" provision is the funding that enables employment of qualified and skilled educators, along with sufficient resources, and in ratios that facilitate building strong relationships with children and their families. The most recent Competent Children study showed that quality ECE exists when staff are responsive to children, guiding them to participate in a wide variety of activities, joining them in play, encouraging them to ask open-ended questions, and providing a focus on literacies through immersion in a "print-saturated" environment (Wylie, Hodgen, Ferral, & Thompson, 2006, p. 5).

The current government strategic plan for early childhood (Ministry of Education, 2002, p. xiv) has been pivotal in increasing quality ECE provision. It has raised the standard required for qualified educators in teacher-led services,<sup>59</sup> from the previous minimal level of one per centre to an expectation that all teachers will be qualified or undertaking a qualification by 2012.

Educators have a key role, as their commitment to early childhood care and education provides a significant contribution to individual children's and families' lives, as well as the wider community and society. ECE educators have struggled for many years to receive recognition. In 2002 they finally received a commitment to staged pay parity with educators in the primary sector who have comparable qualifications, responsibilities, and experience.

Government policy and labour market changes through the 1990s saw the burgeoning of private for-profit early childhood care and education centres, rather than the more traditional state kindergartens and not-for-profit community-based and whānau-led centres. The recent *First NZCER national survey of early childhood*

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<sup>59</sup> Teacher-led early childhood education services include kindergarten and child-care centres. Parent-led early childhood services include Playcentre and Ngā Kōhanga Reo.

*education services 2003-2004* (Mitchell & Brooking, 2007, p. xxi) indicates, however, that private ECE services may be endangering their potential to deliver quality programmes through “significantly poorer employment conditions” (Mitchell & Brooking, 2007, p. xxi) than those found in community-based not-for-profit centres. Teachers in private education and care centres not only had poorer working conditions, but were less likely to be involved in decision-making, and were more likely to rate their workload as excessive, than their colleagues in community-based centres (Mitchell & Brooking, 2007, p. xvi).

The survey highlighted the issue of “the capacity of private centres to make profits for private gain,” whereby government funding is more likely to be returned to shareholders than to be reinvested in sustaining and improving the quality of ECE provision for the children and families who use and pay for them (Mitchell & Brooking, 2007, p. 146).

The recent first national survey of ECE services canvassed an extensive range of organisations on their ECE needs and interests. The survey reported widespread support for free ECE to be “delivered as a national entitlement, not targeted to low-income families” (Mitchell & Brooking, 2007, p. xiv). There was also agreement on the three highest priorities for government action:

- Improving teacher quality
- Increasing funding levels
- Lifting teacher pay (Mitchell & Brooking, 2007, p. xx).

There are, however, disparities between groups using ECE services, and the resources available to them. Māori continue to be “disproportionately represented in lower socio-economic strata” (Health Development Agency, 2004, p. xii). These “widening inequalities in socio-economic resources between Māori and non-Māori” (Health Development Agency, 2004, p. xii) have major implications for future policy and funding decisions, particularly since Māori are forecast to comprise a larger proportion of the population in the future. Improving access to quality ECE for tamariki Māori must be a priority.

## ***20 Hours Free childcare***

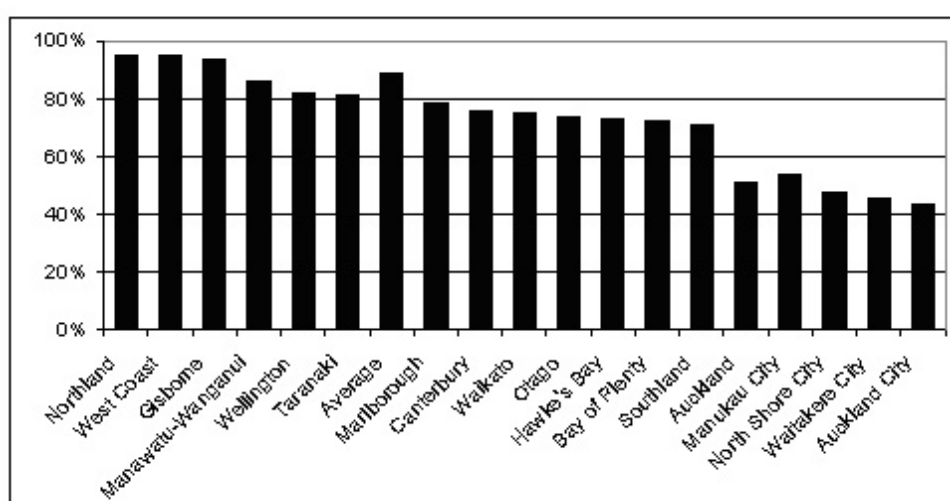
In 2005 the government announced that every child aged 3-4 would be eligible for up to 20 hours per week free early childhood education. The policy has been promoted as “a huge milestone in public education in New Zealand,” and “the most significant expansion of the education system” since the provision of free secondary education in the 1930s (Maharey, 2005). According to the Ministry of Education, it is a participation policy that will boost levels and quality of children’s involvement in ECE (Ministry of Education, 2007a). As at 26 June 2007, 62 percent of eligible, teacher-led services had opted to take up the 20 hours free provision. Within this, the breakdown for different service types includes: 99 percent of kindergartens, 66



percent of home-based services, 75 percent of eligible community-owned services, and 46 percent of eligible privately owned services. Whānau-led services such as Playcentre and Te Kōhanga Reo are not eligible for this funding, which raises significant equity issues for both rural and Māori children, and especially rural Māori children.

Auckland has the lowest take-up, with estimated enrolments in eligible services at only 51 percent. All other regions have take-up of at least 71 percent.

**Figure 31: Free ECE enrolments as a proportion of 3-4 year old enrolments (excl. Casual Ed & Care), by region.<sup>60</sup> Manukau, North Shore, Waitakere and Auckland city are also shown.**



*Source: Ministry of Education, (2007b)*

Many centres have indicated that the government funding provided is insufficient to cover their actual expenses for the 20 hours of provision. Te Tari Puna Ora o Aotearoa/New Zealand Childcare Association, an umbrella organisation representing a range of both community-based and private ECE centres, reports that 78 percent of their 450 member ECE centres are opting in, but of these, 30 percent will be introducing “optional charges” (Te Tari Puna/New Zealand Childcare Association, 2007). These “optional” fees place additional pressure on families.

For its part the Ministry of Education states that although parents cannot be required to pay compulsory fees for Free ECE, “The Ministry envisages that optional charges will enable parents to access Free ECE and have additional services, and to allow

<sup>60</sup> Note Tasman and Nelson regions have been excluded as they appear to have 105% and 100% of 3 and 4 year olds, respectively, enrolled.

services to request additional payments for parts of their service that are more than what is required by regulation” (Ministry of Education, 2007b, p. 2). The government is very determined that its policy remain as a fully-funded arrangement, resisting calls from for-profit centres to re-frame their funding package as a subsidy, which would then enable centres to charge top-up fees legitimately.

## ***Equity issues***

Insufficient funding was identified as “the major issue confronting ECE services” in the recent national survey of New Zealand early childhood services (Mitchell & Brooking, 2007, p. xiv). Government bulk funding was the principal source of funding for centres, followed by parent fees in education and care and home-based services. Almost a third of parents surveyed stated that they had difficulties in paying fees and donations, with low-income families more likely to face this dilemma. A recent NZ survey of “*Parental decision-making in relation to the use of ECE services*” found that although low-income families place greater emphasis on the “educational element” of ECE provision, the cost of the service and the availability of subsidies are also important considerations (Robertson, Gunn, Lanumata, & Pryor, 2007, pp. 84-85).

For whānau Māori, the availability of culturally appropriate services was also paramount. The former Minister of Education, Steve Maharey, recently reported that “children who enter decile 1 schools are ten times less likely to have attended early childhood education than a child who enters a decile 10 school” (Maharey, 2005, p. 1). This is of profound concern because of the known, life-long benefits of quality ECE. However, it does clearly signal where urgent policy attention is required.

Māori participation rates in ECE continue to be below those of non-Māori. The proportion of Māori children participating aged 0–4 is expected to increase from 27 percent in 2001 to 30 percent in 2021 (Ministry of Education, 2005). A recent review of the Ministry’s *Promoting ECE Participation Project* found that “for all Māori families, having access to ECE environments that supported Māori cultural practices and language was a key factor in participation” (Dixon, Widdowson, Meagher-Lundberg, McMurchy-Pilkington, & McMurchy-Pilkington, 2007, p. 52). Many whānau Māori choose for their tamariki to attend Te Kōhanga Reo, in order to meet these needs. It is, therefore, concerning that the percentage of tamariki Māori attending Kōhanga is declining. In 2006, 27 percent attended a Kōhanga, down from 31 percent in 2003 (Ministry of Education, 2005; Tukutuku Kōrero New Zealand Education Gazette, 2007). Meanwhile, there continues to be scrutiny of the low participation of Māori in ECE, as evidenced by the current “wide-ranging and time-consuming” (Trans Tasman Media Ltd, 2007, p. 2) Māori Affairs Select Committee Inquiry into Māori Participation in Early Childhood Education. The terms of reference of this inquiry are to:

- examine economic and social factors, barriers, and family (whānau) influences affecting Māori participation rates in various education programmes;
- examine the effectiveness of governance arrangements for publicly funded early childhood education initiatives, and their effects on Māori; and
- inquire into the appropriate interventions to increase and enhance Māori participation in early childhood education (Māori Affairs Select Committee, 2007).

Although Ministry of Education materials state that some Kōhanga Reo will be eligible for the 20 Hours Free ECE, the fact remains that there are very few teacher-led Kōhanga. The vast majority are whānau-led and hence ineligible. This means that the preferred choice of many Māori families for their children's ECE will not be benefiting from the new funding.

The national ECE survey raised concerns that the reliance on market provision of ECE services in recent years has created a situation where there is an "unevenness in supply" that is not responsive to the needs of different sectors of the community (Mitchell & Brooking, 2007, p. 146). In other words, areas with the greatest numbers of children, which are often decile 1 and 2 areas, have the fewest ECE services. This reflects the current reliance on the private sector for provision which is for-profit, meaning that low income parents are much less likely to be able to access affordable childcare. The survey recommended that the 20 Hours Free ECE policy be monitored to ensure that every 3-4 year old child "has effective access" to their entitlement. This would "necessitate an extension of the policy to parent/whānau-led services and ensuring good-quality ECE services are available for every child whose parent wants them to participate" (Mitchell & Brooking, 2007, p. 146). The report also suggests that the policy be extended to include children aged under 3 in future.

One mechanism that may address some of the inequities created by reliance on market provision is the government's Discretionary Grants Scheme. This began in 2005, and provides planning assistance and funding to community-based groups and early childhood education centres in "areas of need" (Dye, 2005).

## ***Conclusion***

The Ministry of Education is preparing to monitor the results of the policy. It is to be hoped that they will address the equity issues already apparent in the lack of provision for whānau-led services and the shortage of education and care facilities in low-income areas. If the policy is as successful as hoped, this would provide a basis for extending it to children under 3, or, since childcare costs over and above the 20 free hours per week are still a substantial burden for low and middle income families, up to 30 hours per week.

The government has demonstrated a genuine commitment to the early childhood sector, as seen with commitments to raise the requirements for qualified staff, and offer them parity with teachers in the primary sector. Whilst the 20 Hours Free ECE policy is limited by the willingness and ability of centres to subscribe, particularly in the Auckland area, it is an encouraging further development within the sector.

### ***CPAG key recommendations***

- Improve access to quality ECE for tamariki Māori and Pasifika children in a way that recognises and affirms their culture.
- Extend the government-funded equivalent of 20 hours of free childcare to whānau-led services such as Playcentre and Te Kōhanga Reo. Monitor the pressure on families to pay 'optional' top-up fees, and ensure that the funding is adequate.
- Use the government's Discretionary Grants Scheme to address the lack of teacher-led ECE services in decile 1, 2, and 3 areas.

## **11. Some inconvenient truths about education in Aotearoa-New Zealand**

**Martin Thrupp**<sup>61</sup>

*What the best and wisest parent wants for his own child, that must the community want for all its children. Any other ideal for our schools is narrow and unlovely: acted upon, it destroys our democracy.*

(Dewey, 1902, p. 3)

### ***Introduction***

How does poverty affect New Zealand children's schooling? Answers to this question generally revolve around three perspectives. First, it is argued that the children of families in poverty in New Zealand are disadvantaged in schools because of the level and nature of their family resources. Such resources can be both material and cultural: ill health, poor nutrition, overcrowding and transience, fewer curriculum relevant experiences, limited literacy and little early childhood education all reduce the ability of children to progress at school (Biddulph, J, & Biddulph, 2003; Nash,

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1993). Second, it is argued that schools serving poorer areas are under-resourced. This applies more to places such as the USA, where school funding depends on the tax-base of local districts (Kozol, 1991), than to New Zealand, where schools are funded nationally and extra funding is provided for low socio-economic “low-decile” schools. Nevertheless underfunding, or the method of funding, of low-decile schools remains an issue in New Zealand, both because of relatively low parent and community contributions in such schools, and because of the sheer scale of their students’ needs. A third perspective is that poor teaching and ineffective schools are the problem, rather than poverty. Yet quality teaching and school improvement cannot be divorced from the social context. Low socio-economic schools often find it difficult to recruit permanent, long-term teaching staff. Teachers at low-socio-economic schools struggle more to meet the learning needs of children and spend a lot more time on pastoral care than in those middle class settings (Thrupp, 1999).

These perspectives on how poverty affects New Zealand children’s schooling are reflected later in this section in discussion of how schooling policy could be changed to better meet the needs of all children. Nevertheless, it would be quite wrong to assume that a level playing field in education could be achieved simply by providing extra resources to poor schools, or improving the quality of the teachers and schools to which they are exposed. These approaches distance the problem from the lives of the better off. In contrast, much of this section is devoted to a more unsettling perspective: that the problems of the poor in education often stem from the pursuit of educational advantage by the middle classes. The situation is akin to that in the housing sector (see Section 9), where many of the problems faced by poor families can be linked to middle class investment activity.

It is because the middle classes have considerable self-interest in maintaining the status quo that their advantage is rarely discussed: indeed, borrowing from Al Gore, it can be argued that middle class advantage is education’s “inconvenient truth” (Thrupp, 2007a).

This makes it all the more important to discuss, and the focus here is on how middle class families access predominantly middle-class schools, the likely advantages that those schools confer, and the related disadvantages for children from poor families who increasingly are locked out of such schools. Even with the reintroduction of zoning, the New Zealand middle classes have been able to secure and even improve their access to schools with a predominantly middle class mix. Unfortunately, teachers, principals and policymakers are often implicated in helping the middle classes gain advantage in education.

After looking at the problem of middle class advantage in education, the section turns to how this problem and the more widely recognized resource and teacher quality problems mentioned above can best be addressed. The proposals do not assume as inevitable any of the reasons that the children of families in poverty are disadvantaged; instead they reflect what Gerald Grace has called “complex hope”.

This is an optimism of the will in relation to social inequality, but one which, unlike naive hope, recognises the very real historical and structural difficulties which need to be overcome (Grace, 2004).

### ***Middle class advantage in education***

Socially advantaged schools (decile 8, 9, 10 schools) are popular with most parents, especially middle class parents. In part the preference for these schools reflects the assumption of a relationship between high social status and quality. It also results from the belief that predominantly middle class schooling is an important means of social reproduction or mobility. Socially advantaged schools, by keeping out children from poor families, assist parents seeking to advantage their own child's prospects as compared with others. In other words, middle class schooling is a positional good. A positional good in education "provide[s] students with relative advantage in the competition for jobs, income, social standing and prestige" (Marginson, 1997, p. 38).

Positional goods are necessarily scarce in absolute terms, so that only some people can benefit from them. If they were available to all, the relative advantage they bring, and hence their value, would be lost. The fact that "better" schools are seen to offer positional advantage helps explain why such schools are nearly always more popular than low-socio-economic schools which offer little social advantage, no matter how capable they are.

Although the class presumption of parents about the social advantages offered by high-decile schools may be considered unfair to staff and students in low socio-economic schools, it is not necessarily without foundation. Predominantly middle class schools really may be advantageous, in that they provide their pupils with more assured pathways to tertiary institutions and better access to influential social networks and labour market information (the "old school tie"). As well, there may be compositional or "school mix" effects which improve student achievement because of peer group pressure, and instructional and organisational advantages which accrue to students who attend higher socio-economic schools (Thrupp, 1999; Thrupp, Lauder, & Robinson, 2002).

The key point is that these advantages are probably school-based but not school-caused; they may not reflect better teaching and management per se, but rather the influence of other students, and school policies and practices that are supported by high levels of student compliance and motivation. These, in turn, are class-related.

It is clear that middle class households typically cluster together residentially, and group their children together in predominantly middle-class schools to give them an advantaged education by excluding the poor. McCulloch (McCulloch, 1990, 1991) shows this happening in Auckland over many decades, with the imposition of the market model intensifying the process (see also Thrupp, 2007b).

So has anything been done to prevent or reverse this? In November 1998 the National-led government re-legislated geographical zoning for overcrowded schools. In 1999 Labour's pre-election statements expressed concern about intensifying inequalities between what it called winner and loser schools:

*Disparities between schools' levels of resourcing are increasing as the "market model" is applied blindly. Because schools are expected to raise more and more of the funds needed locally, schools in poorer areas are penalised...Schools are being divided into winners and losers according to their ability to fund the technology and other resources needed to provide high quality education. High quality education also requires high quality teachers. Unfortunately the more schools become defined as winners or losers, the more difficulty some schools have attracting and retaining quality staff.*

(New Zealand Labour Party, 1999, p. 4)

Through the Education Amendment Act (2000), which strengthened home zones and brought in balloting for out-of-zone enrolments, Labour seemed to move further away from the market model. Its policies seemed to provide more protection to lower socio-economic schools from having their high socio-economic students creamed off by more popular schools, and also to protect the right of students from poorer families to attend local schools, providing they lived within the school zone.

However, school zones are not what they used to be. They are now drawn up by schools rather than government, and the Ministry of Education has only limited control over them. The working definition used is simply that a school has to be "reasonably convenient" for its students, that is a school that, taking into account a range of factors, a reasonable person would judge to be reasonably convenient. It has yet to be tested in law and still allows schools to target preferred students. Research into primary school zoning in Christchurch has shown that in the absence of government control, many schools have been drawing up their zones in convoluted ways to "bypass more deprived but closer areas in favour of further but wealthier suburbs" (Pearce & Gordon, forthcoming). Moreover, unlike the school zones of old, zones can now overlap, making them "less the tidy product of the old system of regional planning...[and] far more reminiscent of the free market where businesses compete for customers and little or no co-operation exists" (Pearce & Gordon, forthcoming). So New Zealand may have zoning again, but it has a new fluidity which allows middle-class schools to cut out areas of low-decile housing. Such pseudo-zones do not protect low socio-economic schools from having students creamed off by more popular higher socio-economic schools. Nor do they protect the right of poor families to attend their local school.

With living in-zone now the only sure way for children to be enrolled in a popular school, pockets of low cost housing in the zones of popular schools will rarely stay that way for long. In New Zealand, debate about the effect of school zones on

housing affordability has tended to revolve around Auckland's "Grammar Zone", where houses on different sides of the same street can have a difference in value of \$100,000, depending on whether they are in the zone or not (Richardson, 2006). Although there has been no New Zealand research on the relationship between school zones and housing prices, it seems likely from UK research (Cheshire, 2007) that only New Zealand's most popular schools would command such a significant premium. Nevertheless, in other parts of Auckland and other New Zealand cities it is not uncommon for school zones to make a difference to asking price, and to feature in advertising.

Education interacts with other sectors such as housing to contribute to the continuing growth of social inequalities in education. New Zealand has been going through a housing boom, in large part driven by baby boomers investing in rental properties for their retirements, as well as by high immigration. Schooling plays an important role in this investment activity because houses in the zones of popular schools are secure investments, and are one way for investors to maintain and improve their financial resources. Pearce and Gordon (forthcoming) note that the zones of Christchurch secondary schools serving wealthier areas of the city have not changed for many years (the schools all chose to retain geographic zones when they had oversubscribed status in the 1990s). This raises the question of whether these non-changing zones and the wealth of the communities have interacted to compound inequalities between suburbs.

High housing prices and zoning also interact to recast the value of private schooling as a positional good. Private schooling is increasingly being taken up by middle-income parents who want a "top education", but are locked out of the zones of the most popular state schools by high housing costs (Grunwell, 2007). For example, it is more attractive financially to live in mid-decile Titirangi, with annual mortgage repayments of \$20,000 and school fees of \$14,000, than in high-decile Remuera, with annual mortgage repayments of over \$40,000 (unless a family has more than one child). Thus, while the take-up of private provision has increased from 3.5 percent of the school population in 2000 to 4 percent in 2007, its value as a positional good is being eroded by public school zoning policies. The more children attend private schools, the less of an advantage it is to attend one.

Decreases in housing affordability mean that 30 percent of New Zealand's poorest households are now dependent on rental accommodation – that is, excluding state and council housing, on others' property investments – and the number of people renting is projected to continue to rise. In addition, the sale of over 13,000 state houses in the 1990s has reduced the stock of available low-cost housing, leading to long waiting lists, especially after income-related rents were reintroduced in 1999. Overcrowded and insecure housing creates educational disadvantages for the poor, with transience between schools associated with "househopping" and absence from school due to health and other issues (Gilbert, 2005). Housing is a key area where financially advantaged (older) New Zealanders are securing their futures at the



expense of poor (usually younger) New Zealanders. Also, it illustrates how inequalities generated in other sectors affect education in important ways, but are unrecognised by many in education circles.

Those working in the education sector play a crucial role in helping to perpetuate the advantage for children from well-off families. In the case of teachers and principals, a key issue is simply their choice of workplace. In the 1950s Howard Becker (1952) showed that the career paths of Chicago teachers tended to take them from schools in working class areas to those in leafier suburbs where they were likely to stay. The effect of this was that middle class schools were likely to have more experienced teachers. Fifty years later, Garth Ritchie (2004) showed a similar pattern in New Zealand. Teachers tend to move to higher socio-economic schools in the first few years of their teaching lives and, except when they are getting close to retirement, their subsequent moves are also more likely to be to higher than lower socio-economic schools. Meanwhile the lowest decile schools are those with the greatest turnover of teachers. This is exacerbated by low job security in low socio-economic schools with declining rolls. As well, principals of large schools get paid more. Large schools tend to be high-decile schools.

Also, there is evidence that teachers and principals try to maximise the intake of middle-class students while minimising the proportion of students from lower deciles by drawing up zones so as to exclude low socio-economic areas. The “Smithfield” research on educational markets in New Zealand in the 1990s showed that the probability of being accepted by a high-decile school was much greater for students of high socio-economic status, even after controlling for achievement (Lauder et al., 1999). The zones of high status schools are also rigorously policed. In 2006 Auckland Grammar employed a full-time enrolments registrar and cancelled the enrolments of 51 students it deemed to be “zone cheats” because their families had moved out of the school zone whilst their child was attending (Trevett, 2006). It then came to light that a number of other high-decile Auckland schools had been carrying out early morning doorknocks to flush out “zone cheats” by checking to see if families really were living at the addresses claimed on enrolment forms (Woullfe, 2006). In taking such actions, it appears that schools are being over-zealous in interpreting the zoning legislation, as evidenced by the fact that the Ministry of Education upheld 20 out of 45 appeals against Auckland Grammar’s action. More importantly, it is a signal that high-decile schools are prepared to actively exclude students who cannot afford to live in the zone – that is, by socio-economic status.

Catholic and private schools do not market themselves as bastions of privilege. In fact, somewhat disingenuously, the celebratory websites of the New Zealand Catholic Education Office and the Independent Schools of New Zealand, and the equally celebratory utterances of their key spokespeople (CEO Brother Pat Lynch and Joy Quigley respectively), imply that people choose their schools over state schools because of their religious or private character. While private schools are, by their very nature, unlikely to be working class, schemes such as the “Assisted

Places” scheme in the UK or the “Targeted Individual Entitlement” scheme here in New Zealand, which were supposed to provide free places at private schools for working class children, were often taken up by children from cash-strapped middle class families, for instance families where the parents have separated (Whitty, Power, & Halpin, 1998). Within the Catholic school system, the popular schools with enrolment schemes are again high-decile schools. For example, St Bernard’s College in Lower Hutt is a decile 5 school with more than 50 percent Maori and Pasifika students. In reality, no matter how much religious character that school had, it would be unlikely to be sought after by middle class Catholic families. Instead these families would prefer their boys to attend decile 9, predominantly Pakeha St Patrick’s College further up the Hutt Valley. The website describes it as “the premier Catholic boys boarding and day school of New Zealand”, and a school where the staff are “always very happy to talk...about how you can improve your young man’s chances of attending.”

Politicians and policymakers do not dwell on the kinds of persistent pressures towards middle-class advantage in education raised here. On zoning, for instance, the former Minister of Education stated that, “No one, including the National Party, has been able to improve on the current school zoning system” (Grunwell, 2007). This is hardly a rigorous defence of the current zoning policy.

It appears that education policy is shaped and bounded by electoral pressures, and doing anything to assist children from low-income families and neighbourhoods is regarded as politically risky. While there is little New Zealand research on this, the point comes through clearly in analyses of English education policy (e.g. Hatcher, 1998; McCaig, 2000). Although the policymaking process is complex, politicians and policymakers are sensitive to public opinion, including that which is class-related.

Nevertheless, by failing to raise middle class advantage in education as an issue, politicians and policymakers imply that it is a natural part of the world order, over which they have no control. And so we have a society where most people see putting their child into a high socio-economic school as value-free. In class-conscious England there is debate around the ethical dilemmas of school choice, and howls of protest whenever prominent Labour politicians put their children in private schools.

What policymakers and politicians much prefer to talk about is how schools can pull up the low achievement associated with child poverty through better teaching and leadership. In New Zealand, this has led to discussion around effective or quality teaching and “quality providers,” but also significantly around family and community engagement in education. While most educators would agree that how well teachers and principals teach and lead, and how well they relate to the communities their schools serve, makes a difference, problems arise when school-based solutions are overplayed, and turned from “small victories” into “large victories” (Anyon, 1997), which then are seen to provide all the answers to educational and social inequalities.

So how might we start to do things differently? The following sections consider

responses to the problem of middle class advantage as well as the problems of family and school resources and teacher quality and school improvement discussed in the introduction.

## ***Reorienting education***

### **Dealing with middle class advantage**

Teachers and principals serving the middle class in high-decile schools have a significant role in addressing the effects of middle class advantage in education. First, they can be honest in their public statements about the way in which their schools gain advantage from their high socio-economic intakes. It is always refreshing to hear the principals of middle-class schools publicly comment, as they occasionally do, that “yes, our students did do well, but you would expect that with our intake.” In this way teachers and school leaders at advantaged schools can refuse to buy into the view that less popular schools are “bad” schools. They can help by building co-operative rather than competitive relationships with other schools, and by ensuring that their own practices are the least selective or exclusionary possible, as well as by supporting moves to provide additional resources to schools which need them most.

As for policy, the Ministry of Education should not delay in taking more direct control of zoning to at least prevent schools from drawing zones up to deliberately exclude low socio-economic neighbourhoods. This will be an unpopular move with some schools, but will probably be more in line with the public perception of how zoning works. Second, the government carefully should open up public debate about the social costs of a segregated education system. It should also be more honest with teachers and acknowledge the limits of school-based interventions to address social disadvantage. The aim would be to create a climate of public and professional opinion which would eventually support government intervention to draw up enrolment schemes with an explicit view to preventing school segregation compounding residential segregation.

### **Family and school resources**

The issue of less advantageous resources amongst families in poverty interrelates with many of the concerns raised in other sections of this book – health, housing, welfare and taxation, food insecurity and so on. Schools have a role in helping to provide students from families in poverty with some of their health and social needs. “Full service” facilities could be established in schools in low socio-economic areas. Properly funded, equipped and staffed, these schools could provide services onsite, such as social workers, health workers and counsellors. There is some New Zealand precedent as the AIMHI school initiative of the mid-1990s enabled certain New Zealand schools to provide extra services. The interventions proved beneficial, but

unfortunately ongoing resourcing has not been reliable. AIMHI demonstrated that appropriate policy designed to address simultaneously a whole series of factors, using a “whole of student” approach, can effect significant positive change, including improved levels of achievement.

Another key issue is the continuing allocation of funding by socio-economic decile, with low-decile schools getting much more funding than high-decile schools. The kind of compensatory funding decile funding represents is indispensable and has to be at the heart of any fair school funding system (Thrupp, 2008). Nevertheless, policymakers need to continue to refine and improve the decile funding system, basing it on a more realistic understanding of the effects of poverty on families and schools. Some of the current problems are (1) the approximately \$250 million funding distributed by decile is very limited compensation for the poverty-related issues low-decile schools face; (2) the fact that decile funding occurs against a background of government funding decreasing as a percentage of school income over recent years; (3) concerns the decile funding has a stigmatizing effect on schools (Carpenter, 2008); and (4) concerns about the way the decile is calculated, both the extent to which it is an accurate representation of socio-economic differences, and the way the funding is allocated across deciles. For instance, instead of the current very general approach to calculating deciles based on census mesh block data, deciles determined by the proportion of parents who are in receipt of a benefit would be a better indicator of poverty and need.

A third area that needs to be improved is the supply of teachers to low socio-economic schools. This may require financial incentives and/or career redesign (Lupton, 2004). It may also require more specific preparation for teachers in dealing with the challenges of low socio-economic schools. This can be seen as part of a more contextualized approach to teaching more generally, as evidenced in the AIMHI initiative.

### **Teacher quality**

Complaints about the quality of teaching too rarely acknowledge a key quality issue: that most approaches to teaching and leading schools (including neo-liberal approaches to improving school “outcomes” such as target-setting, standard-setting and performance pay) are too generic, i.e. they are seen to apply equally in all school settings (Thrupp & Lupton, 2006). They tend to adopt a view that schools are populated by students who are all white, middle class, of average prior attainment, speakers and readers of English, keen on or at least compliant with the goals of their schools, ready to learn, and well-equipped to do so. This is unhelpful when it comes to dealing with the children of families in poverty. Rather, quality teaching needs to involve models of good practice which really engage with differing school communities and student characteristics.

Such models require teacher education and school improvement research to provide sufficiently differentiated information about good practice in different contexts, enabling teachers and leaders to make decisions that will improve their effectiveness. A better understanding of local situations and community needs will also allow policymakers to design policies which have a better chance of fitting into the school environments they are intended for, while avoiding policies which will unnecessarily constrain useful changes (Thrupp & Lupton, 2006).

Those concerned about “deficit discourses” (notions that cultures and languages other than those of the mainstream represent a deficiency) might suggest that highlighting the constraints imposed by poverty, in order that schools can be equipped and enabled to deal with them, will allow those constraints to become the excuse for low expectations and inequitable provision based on stereotypes (Bishop, 2005). However, generic discussions that neutralise the characteristics of students are also unhelpful. They make it less likely that school funding or organisation, or actual teaching, will be geared towards the needs of the poor, and more likely that they will be treated as not worthy of support in a system geared to the needs of middle class students. Providing there is vigilance against taking up a deficit perspective, drawing attention to pupil differences is essential to avoid the dangers of treating schools and students as being all the same.

## ***Conclusion***

Over the last three decades New Zealand’s middle classes have been able to secure and in some ways improve their access to schools with a predominantly high socio-economic mix. This may be unsurprising when the available evidence from earlier times also shows that New Zealand’s middle classes successfully found ways to educate their children in socially advantaged schools, despite vastly different policy environments (Thrupp, 2007b).

It has been argued here that such advantage has an unwelcome counterpart: the relative disadvantage for children in less desirable schools. These inequalities have been reinforced over time, compounding rather than ameliorating the other educational disadvantages many children already face. Yet neither theory nor the historical record makes such middle class advantage in education, at the expense of the poor, acceptable.

It is also an uncomfortable problem – an inconvenient truth – for the many parents, teachers, principals or policymakers who benefit from the status quo. As social inequalities within New Zealand society become starker, middle class advantage in education is becoming obvious. Middle class advantage may well be a difficult issue to address, but we need education policy and practice to pursue a fairer deal for all children.

## **CPAG key recommendations**

- The Ministry of Education take more control of school enrolment schemes to ensure schools' "zoning" cannot be used to exclude lower socio-economic neighbourhoods.
- School staff acknowledge publicly the many advantages enjoyed by children in high-decile schools, and seek to share those advantages as much as possible with children in low-decile schools.
- Full-service schools provided in low socio-economic areas.
- Continue to refine and improve the decile funding system, basing it on a more realistic understanding of the effects of poverty on families and schools.
- Improve the supply of teachers to low socio-economic schools by providing financial and resource incentives.
- Apply differing approaches to teacher education, teacher practice and school improvement appropriate to individual schools and their communities.

## **12. Social hazards**

### **M. Claire Dale and Donna Wynd**

*Gambling promises the poor what property performs for the rich –  
something for nothing.*

George Bernard Shaw (1856 - 1950)

### ***Introduction***

Legal social hazards, including gambling, tobacco, alcohol, and high priced debt, are strongly associated with family poverty. However, stereotypes of low-income householders as heavy drinkers and gamblers are simply not accurate. A study of 400 low-income households found that although 54 percent smoked cigarettes, confirming the strong correlation between smoking and low socio-economic status, less than 12 percent gambled (other than buying a Lotto ticket), and 75 percent had not had a glass of alcohol in the previous week (Waldegrave, King, & Stuart, 1999).

Social hazards impact most seriously on the lives of people whose financial situation limits the choices they can make to avoid or escape them. Efforts to reduce harm from social hazards must focus not only on the individual, but also on the hazards themselves, and on the wider economic and social environment in which they thrive. Industry self-regulation has proved woefully inadequate. If children, the most vulnerable members of our society, are to be protected from their effects, the government must make greater efforts to support families and communities, and reduce access to legal and illegal social hazards, including gambling, tobacco, alcohol, and high-priced debt.

## **Gambling**

*Just as people and communities are protected through management of chemical and biological hazards, so too should there be protections in place to safeguard our wellbeing from gambling, which we know is hazardous to health.*

(Sharples, 2007)

Gambling is essentially a mechanism which transfers wealth from the less well off to the better off, and is therefore economically and socially regressive (Easton & Ballantyne, 2002). In 2007, in New Zealand, \$35 million was gambled every day. Of that, \$5.5 million was lost – mostly by people who could least afford it (Problem Gambling Foundation, 2007). In 2005 New Zealanders lost \$2.027 billion through all forms of gambling. Roughly half of that, \$1.027 billion, was lost on non-casino pokie machines. While expenditure on non-casino pokies fell by almost 12 percent in 2005-6, expenditure on all other forms of gambling increased (Department of Internal Affairs, 2007). Pokie machine numbers peaked in 2003, at around 23,000; they are currently decreasing, but only by about 4 percent, or 1,250 machines, per year (Department of Internal Affairs, 2007).

Deregulation of gambling industry in the 1980s and 1990s saw an explosion of casinos, non-casino gaming machines (pokies), Lotto, Instant Kiwi, and sports betting, brought in under the mantra of consumer choice. In many cases, however, rational “choice” does not exist. Over 20 percent of gambling revenue comes from people with gambling problems (Problem Gambling Foundation, 2007), and an estimated 88 percent of problem gamblers do not seek help (Problem Gambling Foundation, 2006b). Research by the Salvation Army found that of their clients affected by gambling, approximately three-quarters had children directly affected by the loss of household income arising from gambling. This includes problem gamblers who report domestic or other violence related to their gambling. On average, 10-17 people are affected by the problem gambling of one person (The Salvation Army & Abacus Counselling & Training Services Ltd, 2005). Children in particular have no choice as to whether or not they are affected by gambling.

Access to gambling outlets is the central issue. Research from Australia indicates that gambling behaviour at a community level is supply-driven, that is, “the amount of gambling activity in an area is associated with the density of gambling opportunities in that area” (He Oranga Pounamu, 2006).

### **Targeting of vulnerable communities**

With 86 percent of New Zealanders partaking in some kind of gambling each year (Australian Institute for Gambling Research, 2001), gambling touches most New Zealanders’ lives in some way (Department of Internal Affairs, 2007). Low-income families are the worst affected. Downtown Community Ministry (DCM) reported that 100,000 New Zealanders were affected by problem gambling in 2006 (Downtown Community Ministry, 2006). Over 60 percent of those affected live in low socio-economic areas (Problem Gambling Foundation, 2006a). The Salvation Army notes that “poverty and gambling remain inextricably tied, with people in poor areas lured by a sense of false hope” (The Salvation Army, 2006).

Nationally, 47 percent of gambling venues are in decile 1, 2 and 3 areas. Pokies are five times more likely to be concentrated in decile 1 and 2 areas than in other areas. TAB venues are three times more likely to be located in the most socially and economically deprived areas. They are not there as a matter of community choice: research conducted in Christchurch found that the worst affected communities were the most enthusiastic about getting pokie machines out of their neighbourhoods. A “street level revolt” (Ihaka, 2007) resulted in the Manukau City Council receiving 6,700 submissions urging the council to adopt a sinking lid policy or a moratorium on new venues in response to its gaming policy review. One community activist noted that “people are beginning to realise [pokies] are addictive and harmful and they don't want any more of them in their communities” (Ihaka, 2007).

### **Costs to communities**

In 2005 CPAG showed that areas with high numbers of pokie machines also tend to be areas with high numbers of foodbank users (Wynd, 2005). In 2006 14 percent of Salvation Army foodbank users admitted to gambling problems, compared with the national average of 1.35 per cent doing so (The Salvation Army, 2006). There is, moreover, “an alarming trend ... that the majority of those affected by problem gambling are in families with dependent children. There is also a high prevalence of Māori and Pacific Island women” (The Salvation Army, 2006).

For Māori, gambling is a significant social problem – Māori are now some of the worst affected by problem gambling (Dyall & Hand, 2003). Almost a third (28.5 percent) of problem gamblers are likely to be Māori (Ministry of Health, 2006). Gambling for Māori is not just a form of recreation: “it is a means to escape from the



boredom, chaos and trauma of poverty and the social disorganization it brings” (Dyall & Hand, 2003).

This harm is going largely unchecked. Current gambling intervention services are reaching only approximately 15 percent of the total population who are estimated to be harmed by gambling (Ministry of Health, 2006c). Meanwhile, problem gamblers are easily able to describe the effects of their addiction on their children: “neglect of kids ... no money for food ... having to go home with no groceries or meat in the cupboard ... no clothes for the kids ... children being left at home by themselves or with one parent ... getting angry at the kids for small things ... kids stressed when they worry what they’re going to have for lunch ... late in picking up the children...” (Dyall & Hand, 2003).

Costs incurred by gambling spread beyond the immediate family and into the public domain. The costs of problem gambling include job loss, ill health that places demands on public health resources, and financial difficulties. With respect to gambling-related crime, costs borne by the public legal system include demands on police services, the courts and penal institutions (Australian Institute for Gambling Research, 2001).

While some proceeds of gambling contribute to worthy community groups, schools, sports clubs and other organisations, it has been estimated that “for every dollar given to an essential social service by a pokie trust, about three dollars has been lost by someone into one of their pokie machines...the money lost [often] does not go back into the areas it is lost from, let alone to the people who lost it, who are often those most in need” (Gambling Watch, 2006). For example, of the almost \$2 million taken in one Manurewa pokie bar, the bulk went to the South Island, with more than a third going to racing, and a little over \$12,000 going to community activities other than racing or sport (Problem Gambling Foundation, 2006a). Manurewa – the pokie capital of the Auckland region – is also one of Auckland’s poorest suburbs.

## **Rethinking gambling**

*“The [Australian] Productivity Commission has said that between 4% and 5% of people who play a poker machine get a problem from them. If there was a car on the market that had a design flaw that caused a similar risk of injury, it would be recalled and that defect fixed. If there was a restaurant where one in 1000 customers, let alone four in 100, would get ill from eating its food, that restaurant would be closed down.”*

(Munro & Dowling, 2008).

In a further example of New Zealand’s neo-liberal economic reforms shifting risk from central government to communities, pokie funds drawn from low-income communities are increasingly replacing government funding of services. In practice, low-income communities are subsidising better-off taxpayers. “Over the last 5 years, the government has actually withdrawn two alternative funds that used to significantly

support community-based organizations, and openly redirected prospective recipients to pokie trusts” (Gambling Watch, 2006). Australia stands as a stark warning: “More than 10 percent of [Australian] government revenues come from gambling. The state has become addicted to the nation's gambling habits. No future government could decide gambling was damaging its people and seek to reduce it. How could they afford to lose those revenues?” (Toynbee, 2007).

For community groups, funding from gaming charities is by no means secure. But this is not the only or even the biggest issue: millions of dollars are being siphoned out of communities and allocated to community groups by unelected, unaccountable charitable trusts. Communities themselves have no voice in where funds go, and have no right to appeal decisions. The argument that community groups need gambling funds to survive is spurious. It is essentially asking poor communities to fund themselves through a process over which they have almost no control. Instead, one third of the money goes to the government in taxes and, in the case of gaming charities, one third to the charities themselves.

If government and the wider community do not act to reduce harm from the proliferation of gambling outlets, private profits will continue to be made at the expense of social organization, exacerbating the impoverishment of already-marginalised communities. Groups disrupted in this way are less likely to be able to object to the legalisation of gambling and the deliberate placement of gambling venues in the areas where they live (Dyall, 2007).

In response to public pressure, some councils are starting to restrict access to gambling opportunities. Changes to the Gambling Act, and the effects of smoke free legislation, brought about a reduction in the number of problem gamblers seeking help by 3.1 percent in 2006 (Ministry of Health, 2007b). This suggests that further restrictions could lead to further reductions in gambling-related harm in our communities.

Unfortunately, the legal environment for gambling has so far supported the proliferation of gambling opportunities, rather than the reduction of gambling-related harm. Government has been reluctant to act against the sector, as so many organisations have become reliant on funds from gambling. Governments do not want to be seen as spoilers of children's sport, for example, despite clear evidence that gambling hurts many other children.

The concentration of gambling venues and machines in low-income communities has not changed since the introduction of the Gambling Act 2003 in New Zealand. The majority of pokie machines, TAB outlets and casinos cannot be removed unless the Gambling Act is amended to allow communities to remove machines licensed prior to 2001.

The Gambling Act 2003 imposed a statutory obligation on local councils to consult and engage with Māori in the development of their gambling venue policy, defining exactly where gambling venues will be placed, with the exception of government-

supported Lotto outlets (He Oranga Pounamu, 2006). Given the impact gambling has on Māori, this obligation needs to be honoured by councils and the Gambling Commission (Dyall, 2007).

- **CPAG does not accept money from the proceeds of gambling.**

## **Smoking**

Smoking cannot be seen merely as a matter of personal choice, given the addictive nature of nicotine and the substantial efforts by the tobacco industry to recruit smokers. Smoking is a social hazard and must be treated as such by communities and policy-makers.

Harm to the foetus from maternal smoking is well documented and included on cigarette packet warnings. However, despite decades of smoke-free campaigns, fewer people realize that exposure to second-hand smoke is one of the primary causes of ill-health in children (Ministry of Health, 1999; Waldegrave, King, & Stuart, 1999). Children also have to contend with the consequences of smoking-induced sickness and mortality among parents.

Tobacco-related harm is considerable. Smoking causes 5,000 deaths per year in New Zealand (Action on Smoking and Health, 2007), and continues to place a burden on the health system. Second-hand smoke causes more than 500 children under 2 years old to be admitted to hospital with chest infections. It also results in 27,000 GP consultations for asthma and respiratory conditions, about 15,000 episodes of asthma in children, and glue ear conditions requiring operation in 1,500 children. Prior to the vaccination campaign, it also caused 50 children to be afflicted by meningococcal disease. Exposure to second-hand smoke also doubles the rate of SIDS (cot death) in babies (Ministry of Health, 2001).

Although smoking rates are declining, they should be declining faster. In 2005 ASH surveys found that 39.8 percent of Year 10 students had parent(s) who smoked, compared with 40.3 percent in 2001. In 2005, ASH reported that 26.5 percent of students lived in homes where smoking was still permitted indoors (Pattermore, 2006).

Children from lower socio-economic groups are significantly more likely to live in smoking households, especially if they are Māori or Pasifika. Year 10 students from poorer households are roughly twice as likely to live in households with smokers than are those from affluent backgrounds (Craig, Jackson, Han, & NZCYES Steering Committee, 2007, p. 33).

While New Zealand has made good start towards restoring a smoke-free environment and creating an anti-cigarette culture, there must be continued and sustained government intervention to promote anti-smoking messages. The

government collects more than \$1 billion from tobacco taxes each year, only a fraction of which is spent on tobacco control programs. There is an urgent need for a substantial increase in funding smoking cessation programs, especially those serving low-income parents (G. Thomson, Wilson, O'Dea, Reid, & Howden-Chapman, 2002).

Rob Cunningham of the Canadian Cancer Society told the 2007 Oceania Tobacco Control Conference that New Zealand's daily smoking rate of around 23 percent of the population was notably higher than that of Canada's 14 percent:

*"My number one recommendation to New Zealand policy-makers would be increasing tobacco taxes, especially closing the loophole that effectively allows roll-your-own tobacco to be taxed at a lower rate than cigarettes."*

(Communiquenz, 2007)

At the same conference, campaign groups led by ASH NZ, the Smokefree Coalition and Te Reo Marama announced a 10-year countdown to the end of smoking in New Zealand (Action on Smoking and Health, 2007). Public health policies proposed for dealing with smoking included:

- The complete removal of tobacco retail displays
- Plain packaging of all cigarettes
- The staged removal of cigarettes from sale
- Tobacco tax increases which will double the cost of smoking over the next ten years with the revenue being used to support smokers who want to quit
- Increased support for smokers who want to quit, especially improved cessation services
- More alternative and safer forms of nicotine
- Culturally appropriate action toward tupeka kore (a tobacco free society).

## ***Alcohol***

Alcohol is New Zealand's most widely-used drug. Its negative health effects are well documented. More action is needed to stem its availability and thereby limit the role which alcohol plays in perpetuating the cycle of poverty. While many low-income families drink little, stress and poor coping skills make others vulnerable to alcohol abuse and the violence and loss of income that accompany it.

The more widely-available alcohol is in a community, the more of it will be consumed (Cohen et al., 2006). The role of government is critical: policies such as alcohol taxes and drinking age have been shown to influence drinking patterns. Where liquor outlets are concentrated, prices will be lower, because of competition. The total cost

of drinking will also be lower, because of factors such as lower travel costs and travel time (Wechsler, Lee, Hall, Wagenaar, & Lee, 2002). While it has been argued that easy availability of alcohol is good for consumers, low-income communities recognise the harm it does. At a recent youth hikoi in Clendon, young residents protested about the number of bottle stores in the area (Savage & Coursey, 2007). Hand in hand with the rise in loan shark outlets and gambling premises, the number of liquor outlets in Manukau City has increased from 61 in 1990 to 185 in 2006 (Savage & Coursey, 2007). While central and local governments procrastinate, residents in low-income suburbs are increasingly aware that the central issue is one of access, hence the call to regulate the number of liquor outlets.

### **Harm related to access to alcohol**

The proliferation of alcohol outlets in a community causes disruption in several ways. There are higher rates of homicide, assaults, domestic violence and other behaviours associated with drinking. High concentrations of liquor outlets are associated with relatively high death rates, alcohol- and violence-related illness and injury, and social and economic costs (Wechsler, Lee, Hall, Wagenaar, & Lee, 2002).

Even if they don't drink themselves, people living in poorer urban areas with numerous outlets are likely to suffer the resulting higher levels of harm from others' alcohol consumption. When heavy drinking is socially acceptable, as signalled by high concentrations of liquor outlets, heavy drinking in turn contributes to the deterioration of the neighbourhood. For example, roads and footpaths become less safe with increased alcohol use, and rates of motor vehicle fatalities and other accidental injuries increase.

*Disadvantaged neighbors may be less able to prevent the granting of licenses to sell alcohol. This may be part of a vicious circle: lower socioeconomic status ... may result in more alcohol outlets, more alcohol outlets may lead to more secondhand effects, and more secondhand effects may contribute to decreased real estate values and still lower SES. Efforts should be focused on how to disconnect the vicious circle.*

(Wechsler, Lee, Hall, Wagenaar, & Lee, 2002).

Communities under stress from poverty are not only easy prey to the alcohol industry, but also find their social and economic problems escalate with the increased availability of alcohol. Often, too, communities are left to deal with the fallout on their own. For example, Manukau City Council has repeatedly refused to limit the number of liquor outlets in the city, despite having a clear mandate to do so (Alcohol Health Watch, 2004, p. 14; Ministry of Health, 2004b, p. 14).

Overseas evidence suggests that the alcohol industry targets disadvantaged communities. In the USA, alcohol outlets and advertising appear to be over-concentrated in ethnic minority communities (Wechsler, Lee, Hall, Wagenaar, & Lee, 2002). Local research has shown that for young (14 year-old) heavy drinkers, coming

from a disadvantaged background was a noticeable risk factor (Ministry of Health, 2002a).

The level of drinking amongst Māori is also a concern, as they make up a disproportionately large percentage of low-income families, and are more susceptible to becoming “hazardous” drinkers. Among 15-24 year olds, 32 percent of non-Māori were likely to fall into this category, compared with 43 percent of Māori (Te Puni Kokiri, 2002). The link between poverty and alcohol is well-established, but needs to be clearly understood: excessive alcohol consumption by a given ethnic group is a symptom of poverty, not a primary cause.

### **Limiting the harm from alcohol**

Government strategies to deal with alcohol consumption and its related problems have focussed on individual behaviour, rather than on developing and implementing policies that control the availability, price, and marketing of alcohol. Therefore the onus is on communities to demand policies such as raising excise taxes and raising the drinking age. U.S. research has shown that these result in a significant decrease in deaths from motor vehicle accidents and violence related to alcohol use (Wechsler, Lee, Hall, Wagenaar, & Lee, 2002).

Dealing with the high density of alcohol outlets and their marketing practices may also be an important strategy. Strictly limiting licenses for new outlets, and phasing out existing licenses, are also ways of reducing alcohol outlets.

The minimum legal age of purchase should return to 20, and strict enforcement of this age limit should be a priority. Footpath and billboard advertising in residential neighbourhoods should be restricted. Communities need to have the option of reinstating licensing trusts that restrict the number of outlets and make a financial contribution back to the local community.

### **Loan Sharks**

*It's so easy to sign up, but you are signing half of your life away.*

(Ministry of Consumer Affairs, 2007b, p. 62)

Deregulation of the finance sector, like deregulation of the gambling and alcohol industries, has served as an open invitation for those at its fringes to prey on low-income communities. The proliferation of loan sharks is the familiar story of profits to be made from vulnerable communities. This vulnerability is illustrated by the recent tragic death of a gravely ill mother, dependent on an electricity-driven oxygen supply, after disconnection for an unpaid electricity bill (Fisher, 2007). According to some reports, as for many low-income families, debt repayments at 30 percent interest to loan sharks were one key reason that this family was struggling.

A 2005 Ministry of Consumer Affairs (MCA) report found that almost one third (28 percent) of New Zealanders surveyed had borrowed for essential items such as household groceries, or the power bill (Ministry of Consumer Affairs, 2005). People with very low incomes most often borrowed from loan sharks to cover everyday living expenses and immediate financial obligations. The correlation between fringe lending and low incomes is highlighted by the most common reason given for this borrowing: inadequate income: “Tongans like me have small wages which barely covers day to day things, and when you get unexpected things ... then you have no option but to borrow” (Ministry of Consumer Affairs, 2005, p. 92). Careful budgeting allows people to get by most of the time, but unexpected expenses such as funerals often need to be covered by borrowing. The second most common reason given for borrowing was to cover a large expense, often a car. Car finance arrangements were also those most likely to trap people in unmanageable debt (Ministry of Consumer Affairs, 2005).

The MCA report describes how money has been sucked out of low-income communities over the past two decades. As the workforce has become increasingly casualised and government services have been reduced, the need for credit has expanded. The poor do not borrow because they cannot budget, they borrow because they are poor and in turn that keeps them poor (Ministry of Consumer Affairs, 2005).

Borrowing is a short-term solution, and the need for money becomes more acute once loans have been taken out. Most people are conscientious about their repayments, and this unfortunately sets them up for further financial strife in the future. “We want to fulfil our obligations, and most of us will not run away but will continue to slave in order to pay our debts” (Ministry of Consumer Affairs, 2005, p. 96).

Fringe lenders have not always been such a dominant feature of the social landscape in poor communities. For many years, the few fringe lenders operated in the central city. Now “there are two or three of them here in Otara, quite a lot at Hunter’s Corner and in Mangere town centre and in Manukau...And you can get a cheap car practically anywhere with the finance” (S. Collins, 2007a). Thus, largely unregulated fringe lenders have become entrenched, and are now a hazard for the wider community.

As with other social hazards that are symptomatic of poverty, Māori and Pasifika people are especially vulnerable to unethical lending practices. As one survey respondent observed, “The Credit Contracts & Consumer Finance Act does not protect Pacific consumers from fringe lenders or from themselves” (Ministry of Consumer Affairs, 2007b, p. 51).

For those in poverty, life can quickly become impossible when purchases end up costing ten times their face value, or more, after interest and other finance costs are taken into account. The high cost of credit traps people in worsening poverty and

makes it more likely that they will have to take out other loans to cover other expenses and debts, perpetuating the debt cycle. As the law presently stands, lenders are under no obligation to ensure that people who take out loans are in a position to repay them, and multiple loans are most likely to be incurred by those least able to afford them.

### **Loan shark bites**

Mainstream lenders often will not lend to low-income borrowers due to the perception they are high-risk. The principle of “consumer choice” is thus reserved for the financially secure. When people need to borrow, loan sharks are often the only option.

The cost of credit provided by fringe lenders far exceeds that of high street banks. South Auckland budget advisers report loan shark interest rates of around 30 percent per annum, plus fees, on items such as cars and appliances. For shorter-term loans, rates can be 20 to 25 percent per *month*. For a six-month loan, interest can total 120-150 percent per annum. In one case, charges of 10 percent every seven days applied for money lent until the borrower’s next pay day - the equivalent of at least 520 percent on an annual basis (S. Collins, 2007a). Some finance companies with purportedly lower interest rates make up the difference by charging large administration fees for establishment, security inspection, documentation, loan shortfall insurance policy, etc (Ministry of Consumer Affairs, 2007b).

Simply defaulting on loans is not the end of the matter. In the case of cars and other consumer goods, the item is typically repossessed and sold for very little. The debtor remains liable for the debt plus any expenses incurred in the repossession, less the proceeds of the sale. Lenders are able to take advantage of loopholes in credit law and delay legal proceedings to recover the debt, during which time it continues to accumulate interest and fees. For most borrowers, the only escape is a no asset procedure or bankruptcy.

*“...nobody tells them ‘we’re going to take the car back and we’re going to sell it for two thousand and not only are you going to lose it mate, but we’re going to sue you for the difference. We’re going to stand back, because we can, we’re going to wait four years and we’re going to let that little counter click over thirty five percent before we file the suit and when we do, we’re going to go and we’re going to lock on to your welfare so there’s no way you’re not going to pay us and we’re going to sue you till you pay.’”*

(Ministry of Consumer Affairs, 2007b, pp. 51-52)

In reality, the taxpayer often ends up paying. “Finance companies have no interest in ensuring that [a] beneficiary consumer will be able to meet the loan payments according to the contracted conditions, because the borrower’s income is



guaranteed; in effect, WINZ are paying the finance company directly” (Ministry of Consumer Affairs, 2007b, p. 56).

All of this is within the law. The threat which such unavoidable, unmanageable debt poses to people’s economic and psychological health and security increases the likelihood that people will engage in gambling, prostitution and other high risk activities to try to get out of debt. Such hazardous behaviours emerge as rational responses to the impossible situations people find themselves in.

### **Strengthening the rights of borrowers**

The question of how to deal with destructive lending practices is complex. One South Auckland interviewed for the Ministry of Consumer Affairs’ report was in no doubt where responsibility lies: “I think New Zealand laws are very weak... In Australia these [finance] companies would never be alright...I really, truly blame the government. It’s just gone out of control” (Ministry of Consumer Affairs, 2007b, p. 135).

In the U.S., concern with lending practices in the sub-prime mortgage market<sup>62</sup> has prompted some states, notably Minnesota, to step in and strengthen consumer protection legislation. Legislation recently enacted in Minnesota includes the following consumer protections:

- Requires lenders to verify a borrower’s reasonable ability to pay a given loan.
- Prohibits “churning” of loans (i.e., refinancing without benefit to the borrower).
- Requires that lenders include taxes, insurance, and other charges when comparing loans.
- Requires that brokers act in the borrower’s best interest (Office of the Minnesota Attorney General, 2007).

This legislation places a much greater onus on the lender, rather than assuming that borrowers have read and understood complex legal documents.

In New Zealand in 2007 the Ministry of Economic Development called for submissions for a review of financial products and providers (RFPP). CPAG’s submission on this review, and a background paper on credit and debt for low-income consumers.<sup>63</sup> As well as abandoning the “market model” that has underpinned finance companies since they were deregulated in the 1980s, CPAG’s

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<sup>62</sup> America’s sub-prime mortgage lenders often use practices seen in the New Zealand consumer goods market.

<sup>63</sup> Available at [www.cpag.org.nz](http://www.cpag.org.nz). Backgrounder <http://www.cpag.org.nz/resources/backgrounders/res1202446490.pdf>; submission <http://www.cpag.org.nz/resources/submissions/res1203848074.pdf>.

recommendations include measures to improve access to information and consumer confidence and protection in the finance sector.

In summary, CPAG recommendations are:

1. Fast-track the legislation to register, regulate and monitor the financial products and providers sector. Make membership of, and jurisdiction by, industry disputes resolution schemes compulsory in the sector. This will assist in assuring consumer rights. The legitimate providers of financial products will also benefit from regulation of the sector.
2. Extend the current legal definition of consumer to cover financial products. Include the full cost of credit in any credit contract.
3. Extend the "financial literacy" public education campaign to inform consumers of the legal and regulatory changes in the financial sector, and of their existing rights and access to dispute resolution and redress.
4. Spread this information using all available outlets, including the Retirement Commission's financial literacy campaign, all relevant government websites, MCA's own publications, those of the banks and insurance companies, and the media, as well as budget advisory services and community organisations, community radio and even school newsletters.
5. The successful contribution of microfinance schemes to relief of hardship is well known, for example, the Grameen Bank won the 2007 Nobel Peace Prize. Less well known is the Māori Women's Welfare League micro-financing scheme, run successfully for 17 years. KiwiBank could adopt such a model for vulnerable consumers with children: a microfinance instrument that makes small short-term loans available at close to the rate paid by banks' preferred customers. The amount a particular consumer is able to borrow could increase as their successful repayment history builds. WINZ could guarantee these KiwiBank loans, while refusing to guarantee loans provided under contracts from loan sharks with exorbitant interest rates.

This regime may prevent a recurrence of the recent collapse of over a dozen large non-bank deposit takers in this country, and the worst excesses of the credit providers. Registration will bring all financial institutions into legislated disclosure, prudence, and monitoring regimes, thus reducing risk to consumers.

In addition, if a finance company cannot prove it took the necessary steps to ensure that debtors could service the debt, or that it acted in the debtor's best interests, then there should be no recourse on default. Applicable finance rates must be stated up front, rather than advertised using low "teaser" interest rates. As the 2007 MCA report recommended, time limits should be set for proceedings following default on payments. At present, delays simply allow interest and penalty charges to mount, with all benefit accruing to the lender. Finally, there is still a need for plain-language

contracts. Low-income borrowers, especially those who have English as a second language, are unlikely to be able to read and understand difficult contracts.

The Report commissioned by the Ministry of Consumer Affairs points to a clear problem for the Pasifika community and makes a number of strong recommendations to reverse the relative burdens of lenders and borrowers. Sadly, the government's response has, by contrast, been "forlorn" (Newman, 2007). The Minister's response is worth citing:

*"For some New Zealanders, fringe lenders (also called loan sharks) are a necessary way of making ends meet. To ensure that fringe lending remains fair and without hidden costs, the Government this month announced changes...that will require all financial service providers, including fringe lenders, to be registered and belong to a disputes resolution scheme... Although this doesn't guarantee that loan sharks will be put off their activities, this new level of scrutiny must be good for consumers."*

(Ministry of Consumer Affairs, 2007a).

While the government has not fast-tracked the legislation requiring registration and scrutiny of lenders, as recommended at the MCA Financial Summit in 2007, they have eased the burden for those individuals and families overwhelmed by debt. Two new measures were to be introduced in December 2007, after reform of the Insolvency Act. The first is reform of the Summary Installment Order Process (SIO), so that people will be protected from other actions taken against them over a 3-year period in which they can repay their debt in regular installments. The second reform is a "No Asset Procedure" (NAP) as an alternative to bankruptcy when the debt is between \$1,000 and \$40,000, and the debtor has no means of repaying any amount of the debt under a prescribed means test.<sup>64</sup> "It provides a one-off chance for a consumer debtor to make a fresh start" (Ministry of Consumer Affairs, 2007b, pp. 18-19).

People often borrow money for everyday expenses because they do not have sufficient household income – indeed it is arguable borrowing has become a substitute for a decent income. But borrowing is not the only indicator of income inadequacy. Escalating foodbank use and household crowding all have inadequate income as the common factor. Despite often working in several jobs, families on low wages are still unable to make ends meet, and beneficiaries are still waiting for benefits to be restored to pre-1991 levels. When the gap between incomes and essential expenses is persistent, loan sharks will always be there to fill it. Consumer protection laws are necessary, but ensuring sufficient income for families so they do

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<sup>64</sup> Information is available on these reforms at [www.insolvency.govt.nz](http://www.insolvency.govt.nz).

not have to rely on borrowing to cover day-to-day expenses, and other urgent commitments such as funerals, is the most effective protection against loan-sharking.

## ***Conclusion***

The extent of the impact of social hazards on children and young people in New Zealand is deeply concerning. Gambling seriously undermines family income and appears to adversely affect the behaviour of family members. Each year, through second-hand smoke, and drug and alcohol use and abuse, many children die and thousands of children and young people suffer poor health outcomes, at immeasurable cost to their families and society. The fundamental issue around the explosion of social hazards in low-decile areas since the early 1990s is the persistence of low incomes.

These social hazards have greater impact on poor families, because a lack of resources limits the choices they can make. Reducing the prevalence of these social hazards requires appropriate legislation and education, especially controls over access, combined with government policies that reduce poverty and its effects.

## ***CPAG key recommendations***

- Establish alternative models for funding of community projects that do not depend on profits from gambling.
- Amend the Gambling Act to allow communities to remove machines licensed prior to 2001.
- Use taxes on tobacco to substantially increase funding for smoking cessation programs, especially amongst low-income parents.
- Raise the legal drinking age.
- Fast-track the pending legislation to regulate and monitor finance and insurance sectors to protect consumers.
- Develop a state-funded microfinance system, with loans available at close to the bank rate, to assist families in financial crisis.

## 13. The way forward

### *Setting targets to end child poverty*

This publication has shown how New Zealand's income gap has grown significantly since the 1980s. The resulting income and social inequality affects all areas of many children and young people's lives. What has been astonishing is not only the size of the gap, but how quickly it has emerged. In New Zealand, as in other liberal welfare states (Esping-Andersen, 1990) this widening income gap has had the greatest impact on women and children.

Bad child health statistics, substandard and overcrowded housing, reliance on foodbanks, spiraling debt and underachievement at school are all indicators that both absolute and relative child poverty are realities in New Zealand in the early years of the twenty-first century. Despite almost a decade of steady economic growth and an expensive programme of redistribution through Working for Families, at least 150,000 children - one in six of all New Zealand children - still lives in severe or significant hardship. Another large group of children have been left vulnerable to changes in their parent's employment position. Dealing with these issues in a just and socially sustainable way is New Zealand's next great challenge. There can be no doubt that we must deal with them, for reasons not only of social justice, but also of pragmatism.

The analyses and conclusions of the contributors to this publication all recognise the extent and urgency of child poverty. The central idea is that the gap between the poorest children and others can be closed only by raising the position of those at the bottom. This cannot be achieved solely through increasing parents' involvement in paid work. A many-faceted response is required - one that addresses income, including benefit income, housing, access to health, education and good-quality food, and minimisation of environmental hazards such as gambling and alcohol.

As a first step, we must set a timeline for eliminating child poverty, with clear targets and measurable signposts. We can learn a lot from the UK. In 1999 the Blair government made a commitment to ending child poverty by 2020. It fixed on 60 percent of median income as the poverty line, and set interim targets to meet along the way to achieving that goal.<sup>65</sup> In New Zealand, while the government has made a commitment to eliminate child poverty (see Ministry of Social Development, 2002) it has never set targets. These are crucial to improve accountability and ensure the goal is achieved. **It is a key recommendation of this report that the government**

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<sup>65</sup> Child poverty to be reduced by one quarter by 2004, and by one half by 2010.

**sets a target to end child poverty, say by 2020, and directs enough resources to achieve that target.**

Adopting an official poverty line and setting targets to end child poverty would achieve multiple purposes. Targets would force policy makers to justify expenditure, and give a clear measure of the efficacy of spending. They would also invite re-examination of spending and priorities if targets are not met. Once set, targets cannot be fudged or glossed over. Most importantly, setting targets would acknowledge that child poverty remains a problem, and would demonstrate a commitment to ending it.

### ***Taxes and benefits***

Economic debate often centres on personal tax cuts, with the unspoken corollary that services will be cut. Children in poor families are likely to bear the brunt of such cuts, as they did in the 1990s. Reverting back to 1980s-style tax breaks means forgoing a great deal of revenue that could be used to address child poverty, while exacerbating growing inequality.

However, the tax and benefit structure does need changing. As Section 7 discussed, in international comparisons New Zealand's current top marginal tax rate is not high, but our taxes on low incomes are. To redress the balance, tax on low incomes should be substantially reduced, and net benefits should be raised to maintain their relativity with the new, higher, net average wage. At the same time, regressive tax measures such as incentives for KiwiSaver and low tax rates for PIEs need to be removed.

Included in the *2008 Statement to Parliament* was an announcement of \$446 million over four years to boost funding for community groups working with young people and their families (Clark, 2008). This was described as "quite historic," with the money being used to secure funds for services from "budgeting services to Plunket to refuges..." (Waldegrave, 2008). More secure funding for social service providers is welcome, but it appears to signal that the government has decided that there is nothing to be done about improving incomes beyond WFF. The extra funding will upgrade the ambulance service at the bottom of the cliff; none is going directly to boost incomes for low-income families. The PM's speech made no mention of removing restoring benefits to pre-1991 levels for the thousands who are currently or permanently unable to undertake paid work. Yet it is clear that child poverty is very strongly related to low benefit levels and cannot be eliminated unless benefits are raised.

### ***A return to universalism***

CPAG's immediate concern is with the removal of the discrimination in child-related tax credits, outlined in Section 6, that have been so adverse for poor children. **The principle that all children are treated the same must be reinstated. To achieve this first step the \$60 In-Work Tax Credit should be abolished, and added to the**

**Family Tax Credit (FTC) for the first child in all families who are eligible.** This would give a much-needed income boost for families in hardship, especially those for whom working even part-time is impracticable. This would cost about \$450m and would put more money in the pockets of those families in the greatest need.

Once that is achieved, society should move further to make part of this assistance universal, as it is in the UK and in Australia, where a component goes to all but the top 6 percent of children. Universal allowances are expensive and their reintroduction is difficult, because they appear to benefit high-income families who may not appear to be in need. A universal payment of just \$15 per week for all children aged 15 and under would cost an estimated \$740 million per year.<sup>66</sup> Yet there are huge advantages from having a balance between universal and targeted child payments, as we used to have, and as is common in other countries.

Children need regular, reliable income to access the food, shelter, education and medical treatment they need. In the fragmented, casualised labour market of the 21<sup>st</sup> century, sufficient income to support all children is unlikely to come from paid work, particularly low-paid work. A universal payment would not change when work status or income changes, and it would stay with the caregiver when marital status changes.

A universal benefit would also be easier to administer in the event that a child's circumstances change. In contrast to work-based income support, a regular, reliable income that was not subject to economic downturns or redundancy (as the IWTC is) would reduce stress associated with a parent losing paid work. It would be of enormous benefit to children – as New Zealand's past experience with a universal child allowance shows.

But we are a long way from making child assistance universal in New Zealand. To begin to restore the balance, part of the FTC could be universalised. This could be done at the same time as the IWTC is effectively extended to all children by being absorbed into the FTC, as described above. To begin, this might apply as a \$20 week payment for all children under 5. In this way, the extra cost would be absorbed for most families as part of their existing FTC, as there are relatively few children under 5 in high-income families.

### ***Leaving the failed experiment behind***

Child poverty is now rarely mentioned in official documents, except in the context of what measures have been taken to reduce it. Nor has there been any mention of

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<sup>66</sup> There are approximately 950,000 children aged 15 and under in New Zealand.

eliminating it since the historic promise in 2002. Instead the debate has shifted to how to fund services that deal with the inevitable consequences of poverty.

Tellingly, the removal of any mention of participation and belonging from the 2007 amendment to the Social Security Act and the substitution of only a grudging commitment to “help alleviate hardship” (Social Security Act 1964, section 1A) signals a resigned acceptance that poverty, including child poverty, is inevitable.

But child poverty is not inevitable, any more than illiteracy and poverty-related forms of infectious disease are inevitable. With the will and commitment of policy makers and wider society, child poverty can be ended. It should not be regarded as the unavoidable outcome of economic laws, to be dealt with solely by providing mop-up social services.

New Zealand once had very low levels of child poverty, and there is no reason it cannot attain this once again. Poverty and hardship can be alleviated and prevented by ensuring sufficient income and equal access to quality, publicly-funded services in order to give *all* children the opportunity to participate in their communities, now and well into the 21<sup>st</sup> century.

It is time to turn the page on our failed free-market experiment in favour of a more equitable society, where all children really are given the opportunity to thrive and genuinely meet their potential. The “welfare” model initiated in 1991, and little changed since, has failed to protect the vulnerable, or provide opportunities for them. On the contrary, families have been undermined by the idea that the only activity of any worth is paid employment. Family caring – whether for children, the sick, or the elderly – is now seen as an activity with a purely private benefit, to be fitted around paid work. Moreover, current ‘work first’ policies take no realistic account of the ages or numbers of children, and refuse to acknowledge that parenting is in fact work. This view needs to be replaced by one where caring for children is accepted as a valuable activity, and is supported both financially and through services that are adequate for both parents and children.

Meanwhile, New Zealand’s levels of income support are woeful. A sole parent is expected to feed, clothe and shelter one adult and two children on a basic income of \$395 a week. Yet while endless column inches are devoted to urging cuts to the tax rates of the well-paid and companies, almost nothing is said about the thousands of children whose parents are struggling to support them on these low incomes. What is said rarely centres on children’s welfare or wellbeing. Instead, it often focuses on parental behaviour, implying that poor parents are somehow inadequate.

Some families will always need special help to recover from dysfunction. But we want to state clearly that overall, the problem is not parental behaviour. It is inadequate income.

Seventeen years after a set of reforms that cut benefits and replaced the concept of universal provision with welfare only for those “in genuine need” (Department of



Social Welfare, 1991), child poverty remains at high levels. Sadly, despite the clear failure here and overseas of work-first policies to reduce child poverty, New Zealand social assistance policy continues to place labour market-related objectives ahead of support for children. Indeed, “Working for Families” and “Working New Zealand” continue the theme of 1991’s “Welfare that Works” (Department of Social Welfare, 1991). Policymakers must realise that, whether they meant to or not, they have contributed to greatly widening the gaps between the children of beneficiaries and other children, with the dire consequences detailed in this report.

Basing the level of family assistance on parents’ employment status has been justified on the grounds that rewarding paid work effort will encourage more parents into paid work, lift them and their children out of poverty, and reduce “dependence”. Yet, as this publication has shown, stringent abatement of benefits may serve to make extra work financially unrewarding, especially if parents are faced with increased income-related rent. It is not unwillingness to work but the maze of specific, targeted payments with high abatement rates that creates a poverty trap for so many families. As the Rotorua Peoples Advocacy Centre (2007) and Catriona MacLennan (2007) have shown, this complexity means that the most needy may miss out altogether.

### ***Health, Housing, and Education***

As Section 8 shows, health is a key area where New Zealand children lag behind their peers in other developed countries. Comparison of children’s share of the overall health budget shows that children’s health is badly underfunded. **It is a key recommendation of this report that children’s health be more equitably funded.**

Money should be made available for child health initiatives, particularly in early childhood. The first three years of age is when the greatest potential is achieved or the greatest damage is done. One policy change that would be of immense benefit to all children is the provision of free accessible primary health care and prescription medicines for children and young people under 18 years, 24 hours a day, 7 days a week.

Another would be the introduction of free, nutritious breakfasts for all children in all decile 1 to 3 schools. Food is vital in order for young brains to learn, and any initial expense would be more than made up for in improved learning and reduced likelihood of obesity (Wynd, 2005).

Children also face environmental hazards, including gambling and (in practice) easy access to liquor. Restricting access to social hazards by age, venue, price and time of day, and tighter regulation of tobacco, gambling and alcohol, is necessary to minimise the harm social hazards have on children, especially those from vulnerable families. Resources and support should be given to low-income and indigenous communities to help them organise to seek the removal of gambling venues and

alcohol outlets from their locality. This would give communities greater direct control over their own environment. In the case of gaming, those who define a community's needs are often unelected trusts from outside the community, which are easily captured by interest groups. A far stronger public health perspective should govern rules around social hazards and bodies administering them, such as the Gambling Commission. In addition, there needs to be a reassessment of the harm caused by gambling.

Housing (Section 9) is a key nexus between low income and other outcomes for children. Overcrowded and substandard housing is a major contributor to our children's poor health. In her *2008 Statement to Parliament*, the Prime Minister announced a range of measures aimed at making adequate housing more affordable for low-and middle-income earners. These included freeing Crown land to build more homes, including homes for families on "modest incomes" and houses for Housing New Zealand, a shared equity scheme, and a law change giving local authorities the power to require affordable housing as part of a development (Clark, 2008).

Whether any of these proposals work remains to be seen. The shared equity scheme is designed to help people move into high-cost areas, so is unlikely to work for low-income families. Crown land in the areas of most need, particularly Auckland, is in short supply, and much of it is subject to Treaty of Waitangi claims. If Treaty claims are given due process, then this land may not be available for many years, if ever. Similarly, simply giving local authorities the power to require developers to include affordable housing in developments is no guarantee that this will happen. Most crucially, however, the fundamental tax advantages for housing investment remain, and tenants still have few rights. The urgent needs of low-income families with children in rented accommodation have not been addressed.

Education is vital for the development of children and young people. Social inequalities within New Zealand society have been reinforced by inequalities in education at all levels.

Early childhood education (ECE) can lay the ground for a child's development for many years into the future. Access to preschool education through government policies has been improved in some but not all neighbourhoods. While the government has committed to the provision of up to 20 hours per week free ECE for all three and four year-olds, and some real improvements have been made, there remain some significant equity issues. These include the lack of whānau-led services for tamariki Māori and uneven access to providers. Extending the 20 hours free ECE policy to kohanga reo and Playcentre services, and ensuring adequate funding for teacher-led ECE in low-decile areas would significantly improve children's access to ECE.

A similar commitment must be made to helping low-income children achieve at school. While decile-funding blunts some of the worst effects of disadvantage, much more needs to be done to acknowledge the effects of poverty on education and offset

the advantage enjoyed by the children of the better-off. Part of this must involve preventing school zones excluding children from low-decile areas. Further improvements to equitable funding should include allocation of sufficient resources for a full range of services, to enable low-decile schools to ensure their students have access to a good education.

### ***There is a way forward***

Childhood poverty imposes a life sentence of harm and diminished capability. But although the income, health, housing and education statistics for too many children in this country are shameful, the future can be better and the benefits would be shared by all. Each section of this report identifies effective and economic solutions to many of the causes and contributors to child poverty. In each case, the present and future benefits of these solutions are likely to far outweigh the costs. We urge that the government consider these recommendations and adopt the goal of ending child poverty in New Zealand by 2020.

# **Appendix 1. Challenging the In-Work Payment: A summary of the Child Poverty Action Group complaint to the Human Rights Review Tribunal<sup>67</sup>**

**Donna Wynd and Catherine Rodgers**

The In-Work Tax Credit (IWTC), the central plank of the Government's Working for Families package, is worth \$60 per week for low and middle income families with one to three children and \$15 per week more for additional children. However, children whose parents are receiving either a main benefit or accident compensation payments do not get the advantage of this money in their family budgets. CPAG says this is discrimination on the basis of parental work status. It has filed a legal case which claims that the IWTC and its predecessor, the Child Tax Credit (CTC), breach the anti-discrimination provisions of the Human Rights Act 1993 (HRA).

## ***History of the case***

As outlined in Section 6, instead of giving an overdue Family Support inflation catch-up to boost all low family incomes, in 1996 the then National-led Government introduced the first work-related form of child assistance called the Independent Family Tax Credit. This later became the CTC and was only available to families "independent" from the State. However, the "independence" requirement related only to receipt of a main benefit or accident compensation payments. Eligible families – the working poor - were still dependent on the State for the income top-ups of Family Support and the CTC. For 10 years the CTC was paid at the rate of \$15 per child per week. During the same period, as has been discussed in Section 6, Family Support declined in value. Along with the benefit cuts in the early 1990s, this decline in the value of Family Support meant the incomes of families reliant upon main benefits and accident compensation payments who were ineligible for the CTC, declined in value relative to eligible families.

At the time the Independent Family Tax Credit was introduced, the Labour Opposition expressed considerable outrage. At that time Labour Members of Parliament pledged that such a discriminatory law would not continue under a Labour Government. Annette King said: "...it isolates beneficiaries from other families - treats them like lepers and worst of all it treats their children differently - what is different

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<sup>67</sup> Material in this section comes from CPAG's website, which has comprehensive notes on the case, as well as copies of all the legal documentation. Available at [http://www.cpag.org.nz/campaigns/Child\\_Tax\\_Credit\\_IWP.html](http://www.cpag.org.nz/campaigns/Child_Tax_Credit_IWP.html).

about a beneficiary child? Does that child look different when she or he goes to school? Yes, that child probably does look different because of the circumstances of the family – but also the Government wants everyone to know that he or she is different.”

This was echoed by Dr Michael Cullen:

*“Why do children in families on benefits get less than children in families on low, earned incomes? Why use children as a work incentive? ...To draw distinctions between what the State says should go to low-income families on the basis of the source of that income rather than on the level of that income is obscene. That distinction will go, under Labour. Family Support will be increased up to the level of the Independent Family Tax Credit. Under Labour all families will be better off...”*

Since then the two major parties have drawn closer together on social security policy, and both now seem to agree that work incentives such as the CTC need to take priority over investing in all disadvantaged children. In April 2006 the Working for Families package replaced the CTC with the more generous but more selective IWTC. The IWTC is paid at \$60 per week for one to three children and a further \$15 for each additional child. Unlike the CTC it has a worktest, being a minimum requirement of 20 hours per week work for single parents and 30 hours per week for couples. This payment arguably rewards children for having employed parents and penalises them when their parents do not work, regardless of the reason for this.

In 2002 CPAG laid a complaint with the Human Rights Commission about the CTC. The complaint has been through a number of stages (outlined below). Since then the IWTC has been enacted, and the complaint has been extended to include this. The complaint is now at the stage of hearing before the Human Rights Review Tribunal (the Tribunal) in mid-2008.

### ***The initial complaint***

The complaint was lodged with the Human Rights Commission in October 2002. It alleged that the CTC breached the HRA. CPAG claimed that because the CTC is not available in respect of children whose parents are receiving a main benefit or accident compensation payments, those children are being discriminated against by virtue of their parents’ employment status. CPAG alleged that the children of beneficiaries were being discriminated against on the basis of their parents’ source of income.

The complaint further alleged that the CTC breached article 26 of the United Nations Convention on the Rights of the Child. Article 26 requires that in all actions taken by public agencies involving children, children’s best interests remain a primary consideration. Yet the literature around the introduction of the CTC, including the

Parliamentary debate and the select committee reports, shows children's wellbeing was barely considered, and was certainly not a primary focus.

### ***The Crown's response***

The Crown Law Office responded to CPAG's claim in July 2003. In essence, the Crown's position was that "ineligibility for the Child Tax Credit is outbalanced by the amount received through the income-tested benefit or other assistance." Further, "while families that are ineligible for the Child Tax Credit are treated differently from eligible families, the difference in treatment is beneficial and cannot, for that reason, amount to discrimination." This argument has since been extended to a suggestion that because beneficiary families get more state assistance than those getting Working for Families tax credits (which includes the IWTC) they are advantaged over others.

Back in 2003 the Crown also argued that "the restriction of the Child Tax Credit to low- to middle-income families that do not already receive substantial government assistance is justifiable as a form of assistance that recognises the contribution that such [working] families make." The discrimination was, therefore, "plainly justified in terms of section 20L(2)(b) of the HRA."

More recently the Crown's case has focused on the argument that work is the best means of moving children out of poverty. CPAG argues this is an overly simplistic view. This point will be the subject of much debate at the hearing.

### ***Proceeding to the Human Rights Review Tribunal – and beyond***

When it became clear that this matter could not be settled by mediation and there was no sign the Government was prepared to rethink the IWTC or take other steps to address the real disadvantages suffered by children in beneficiary families, CPAG decided to take the case to the Tribunal. CPAG is being represented by lawyers from the Office of Human Rights Proceedings (OHRP). The first CPAG statement of claim was filed in the Tribunal in May 2005. At this time the Working for Families legislation had been enacted and the IWTC was added to the claim along with the CTC (which continues to be paid to a small number of families).

A preliminary hearing was held in the Tribunal in June 2005 when the Crown challenged CPAG's right to bring the case. It argued that as a "non-affected party," that is as a group of persons who did not directly suffer the discrimination complained of, CPAG could not bring the case as a "complainant" or "aggrieved person". These terms are used in the HRA for those who can make complaints and bring proceedings in the Tribunal. In legal terms the issue was a jurisdictional one. The Crown also argued that because the IWTC had not yet come into force (although the legislation had been passed), it was not "ripe" for legal challenge. In a decision dated

15 September 2005 the Tribunal found that CPAG could bring the case and that the IWTC could be part of the claim. The decision set an important precedent because it affirmed the right of non-affected parties such as CPAG as well as “public spirited” individuals to challenge policy on human rights grounds under Part 1A of the HRA.

The Crown appealed this decision to the High Court. The appeal was abandoned because Justice Young found the court had no jurisdiction to hear an appeal from a determination by the Tribunal of a preliminary point. Justice Young also expressed “serious concern about bringing review [judicial] proceedings or indeed declaratory judgment proceedings” in order to circumvent the ruling. Undeterred, the Crown decided to further dispute CPAG's right to bring the case by pursuing judicial review. In November 2006, Justice Miller found in CPAG's favour, clearing the way for the substantive case to be heard by the Tribunal. The Crown decided not to appeal this decision and the substantive hearing is set for mid-2008.

The arguments that CPAG will make include that the discrimination in the IWTC materially disadvantages children in beneficiary families and that many of these children are already seriously disadvantaged. The legal tests applying to discrimination claims against government policy remain uncertain. However, it is likely that the Crown will probably need to show that the IWTC is an effective work incentive and that the benefits it brings to our society and economy outweigh the fact that an estimated 185,000 children living in some degree of hardship miss out on this additional form of family assistance.

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