 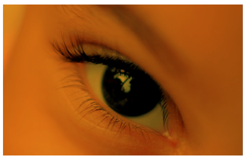  

# Children and the Living Wage

Susan St John and Yun So
Child Poverty Action Group
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## About Child Poverty Action Group

Child Poverty Action Group (CPAG) is an independent charity working to eliminate child poverty in New Zealand through research, education and advocacy. CPAG believes that New Zealand's high 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 would like to support CPAG's work, please visit our website: www.cpag.org.nz

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# Introduction

New Zealand was once a model for other countries to follow in regard to its egalitarianism. Today, there is high income and wealth inequality and an unacceptable level of family poverty and homelessness. The age group that has the highest levels of material deprivation is the group aged 0-17 years[1].

CPAG applauds efforts by Living Wage Movement Aotearoa (LWMA) to raise wages in New Zealand as one means of addressing this problem.

While the minimum hourly wage rate sets the minimum that employers are legally required to pay their workers, the living wage (LW) is a ‘voluntary’ higher hourly rate. The 2016 living wage rate (LWR) in New Zealand is $19.80 per hour (due to increase on 1 July 2017 to $20.20) while the minimum wage rate is $15.25, i.e. $4.55 less (Living Wage Movement Aotearoa New Zealand [LWMA], 2016).

The successes are to be celebrated as more employers sign up to be living wage employers. Recently, the Wellington City Council implemented policies to pay a LWR, not just to employees, but to all staff of council-controlled organisations (Devlin, 2016)[2]. The new Mayor of Auckland, Phil Goff, has also committed to paying the LWR, first for those directly employed, and then, for contracted workers. [3]In 2016, 58 firms/organisations are identified as ‘Accredited Living Wage Employers’ (LWMA, 2016).

This paper argues however that while better wages are essential, on their own they are an insufficient response, especially to child poverty. Higher basic wages must be accompanied by strengthening the generosity and effectiveness of tax-welfare policies (Boston, 2013).

1 Refer to Table D.10, page 25 from Bryan Perry’s report ‘Measuring and monitoring material hardship for New Zealand children: MSD research and analysis used in advice for the Budget 2015 child hardship package’ at http://www.msd.govt.nz/documents/about-msd-and-our-work/publications-resources/monitoring/child-material-hardship-2015.docx

2 See ‘Living Wage: Victories All Round’ from http://www.stuff.co.nz/business/79966289/Wellington-City-Council-and-Chamber-of-Commerce-both-claim-living-wage-victory

3 See http://www.radionz.co.nz/news/national/312269/goff-promises-push-for-council-staff-living-wage

# 1. The Living Wage in New Zealand[4]

Over the last decade, the Living Wage Movement (LWM) has gained prominence in countries such as the United States and the United Kingdom. The Living Wage campaign first emerged in New Zealand in 2012 as a response to the increasing disparity between high and low-income groups.

The key drivers of the LWMA have been dissatisfaction with stagnant wages, and the belief that "wages should be based on need and not be determined by the market forces" (LWMA, 2016).

One of the key aspirations is 'to reduce poverty'. In particular, the LWMA places a strong emphasis on child poverty. The LWMA website refers to "... up to 285,000 children living in poverty, and of those children, 40% come from families where at least one adult is in full-time work or self-employed" (LWMA, 2016)

While living wage and living wage rate are terms often used interchangeably, it must be noted that having sufficient money to live on is a function both of the LWR and the number of hours worked.

The actual standard of living achieved by family who are paid the LWR, hinges critically on the subtle interplay of five main factors:

1. The gross hourly rate.

2. The number of hours worked.

3. The taxes payable, including effects of GST.

4. The value of tax credits for children.

5. The social wage of tax-funded health, education and housing assistance.

## Defining the Living Wage

The report of an investigation into defining a living wage for New Zealand, describes the LWR as 'the hourly wage a worker needs to pay for the necessities of life and participate as an active citizen in the community' (King & Waldegrave, 2012, p.3). The Living Wage reflects the basic expenses spent by workers and their families for commodities such as food, transportation, housing, childcare, health, education and recreation.

King and Waldegrave, suggest that the minimum wage is inadequate for workers to have meaningful participation in society:

> *Basic necessities are what poverty lines and minimum wages are about. A living wage, on the other hand, refers to having those necessities but also other things required to enable modest participation in society. Examples … are being able to afford a computer, especially for children in a household, paying for children to enjoy a school trip and being able to mix with friends recreationally, albeit modestly. (King & Waldegrave, 2012, p.5)*

4 See 'An Introduction to the Living Wage' at http://www.livingwage.org.nz/information_sheets

# Calculating the Living Wage

Commissioned by the LWM, King and Waldegrave (2012; 2014) constructed a model[5] to find the LWR that is sufficient for workers to maintain average living standards in New Zealand.

The methodology involves a two-step process to find: (1) 'Output' (what total disposable income is necessary), and (2) 'Input' (what gross wage rate does this require).

First, the output end involves running focus groups to identify an average level of expenditure required to maintain adequate living standards for a household of two adults and two children. Open discussions are held and participants are asked to find commonly used budget items and these participants are then asked to give an estimate of the total cost. An overall expenditure level is also calculated using secondary data sources such as the Statistics New Zealand Household Economic Survey (HES), cost estimates provided by the University of Otago Food Costs Survey, and the Ministry of Business, Innovation and Employment (MBIE) Tenancy Bond Database.

In the initial exercise to set the LWR, the focus groups results were judged to give an income that was 'much higher than researchers expected'. The average of HES values for various categories such as 'Food', 'Housing', 'Clothing and footwear' and 'Childcare' spent by the lower income groups (decile 1-5) was taken to be a more realistic measure (King & Waldegrave, 2012, p. 8). The annual expenditure calculated on this basis became the 'disposable household income' needed to ensure the required standard of living.

The next step involves analysing the input end, which finds the gross income level (before income tax, other deductions such as KiwiSaver, are taken into account and tax credits are applied), for a family of a given structure that achieves the necessary level of effective disposable income (after these adjustments). The LWR estimates are based upon a family that has two children under 13, and one-and-a-half-income earners who between them work 60 hours per week for 52 weeks per year.

Entitlement to Working for Families (WFF) tax credits (In-Work Tax Credit (IWTC) and Family Tax Credit (FTC)) are determined by the initial gross income for households with two dependent children. Then, depending on the initial gross income of the family and actual rent paid, an accommodation supplement is estimated. In their report, King and Waldegrave showed a range of final 'disposable household income levels' (2012, p. 44-45) for different gross income values. The desired disposable income is then selected and the relevant gross hourly wage rate determined as the LWR.

# Updating the Living Wage Rate

The LWR has been updated on a regular basis by the New Zealand Family Centre Social Policy Research Unit (FCSPRU), (King & Waldegrave, 2012; 2014). The method is to link the LWR to growth in 'average ordinary time hourly earnings'. Changes in this variable are published every quarter by Statistics New Zealand.[6]

King and Waldegrave (2014) reviewed and updated values for rents, food costs, and other living

5 An in-depth description of the procedure and the variables of the model can be found in the first living wage report by King & Waldegrave (2012, p. 7-16), and in Appendix 1 (p. 16-38) and in Appendix 3. http://www.familycentre.org.nz/Publications/PDF's/Living_Wage_Investigation_Report_2013.pdf

6 Statistics New Zealand, earnings for years up to September 2014 Quarter can be viewed at http://www.stats.govt.nz/browse_for_stats/income-and-work/employment_and_unemployment/quarterly-employment-survey-info-releases.aspx. For data from December 2014 Quarter to June 2016 Quarter, see http://www.stats.govt.nz/browse_for_stats/income-and-work/employment_and_unemployment/labour-market-statistics-information-releases.aspx

costs. While the cost inflation-based estimates and the expenditure estimate gave a higher increase for the LWR than the movement in the average ordinary time hourly rate (2.1 percent), it was decided to use the wage adjustment.

> *The rate of $18.80 is chosen as the 2014 recalculated living wage, because the living wage is a wage in the market, and it was decided the updates should relate primarily to movements in wages rather than the CPI or the higher household costs as measured by HES. (King & Waldegrave, 2014 p.3)*

It is intended that the LWR be recalculated and the methodology reviewed after five years, implying 2017 is the next year of review. In the meantime, the wage link is used to update the LWR.

For 2016, the LWR of $19.80 corresponds to a gross (before-tax) income of $61,776 for the standard family. The final disposable income of $57,101 deemed to produce the desired living standards for this family is made up of WFF tax credits of $6,138 and after-tax income of $50,965.

# 4. How Working for Families (WFF) works

Given the critical importance of tax credits in the achievement of the desired standard of living from the LWR this section briefly explains how WFF works.

Child tax credits, family benefits, basic income, family rebates, and tax relief are possible ways for society to help families with the costs of raising children and to prevent poverty. Child-related payments in New Zealand now come under the umbrella of WFF, a system of weekly, child-related tax credits paid to the caregiver targeted on total family income.

The main family-related tax credits: the Family Tax Credit (FTC) and In-Work Tax Credit (IWTC) replaced the existing tax credit system and were fully phased in by 2007, making a significant difference for those families who gained access to the maximum entitlement.

All low-income children qualify for the FTC while the IWTC is available only to families with parents who work the required hours each week (30 hours each week as a couple and 20 hours per week as a single parent).

Table 1 summarises the maximum weekly payments to households for children under 16 in 2016.[7]

Indexation of tax credits is a vitally important issue. Unlike New Zealand Superannuation (NZ Super) that is updated annually using movements in the net average wage, family-related tax credits are adjusted only when cumulative inflation reaches 5% (St John & Dale, 2010). The last adjustment was 1 April 2012.[8]

The inflation rate is measured to the year ended September to give Inland Revenue (IR) enough time to implement the adjustment in the following April. As cumulative inflation since September 2011 did not exceeded 5% by September 2016, no inflation adjustment to any part of WFF is expected even in 2017, five years after the last adjustment.

Table 1. Working for Family Tax Credits, children under 16, 1 April 2016

| | Maximum 2016 values (weekly) |
|---|---|
| Family Tax Credit (FTC), first child | $92 |
| Family Tax Credit, each additional child under 13 | $64 |
| Family Tax Credit, each additional child 13-15 | $73 |
| In Work Tax Credit (IWTC), one to three children | $72.50 |
| In Work Tax Credit, for each additional child after three children | $15 |
| Threshold, joint income (annual) | $36,350 |
| Abatement rate | 22.5 % |

If the living standards of low-income families are to be protected, all parts of family assistance must be adjusted automatically for inflation every year. Moreover, the indexation should be to net average wages, the same as for NZ Super. This is very important in times of low measured CPI inflation, but high housing and increased living costs for most families.

7 Higher rates apply for children over 16.

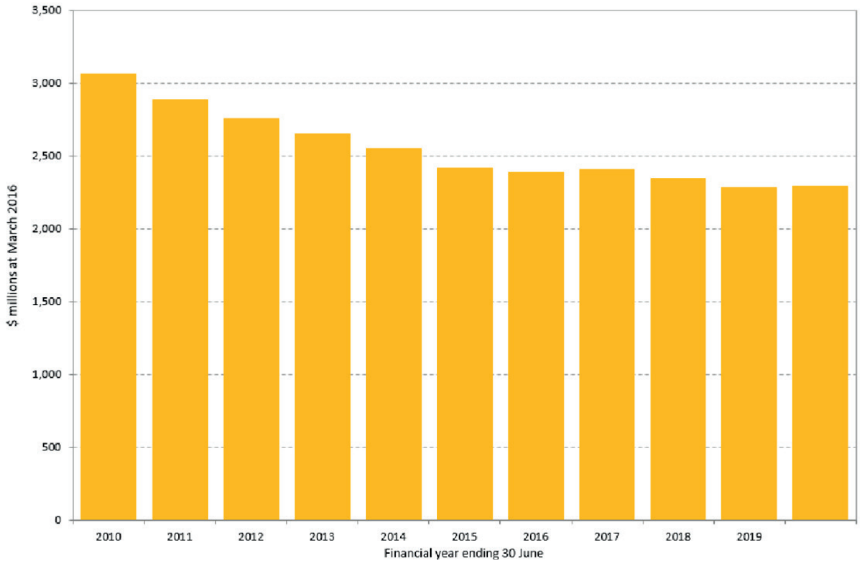
8 http://www.ird.govt.nz/technical-tax/legislation/2011/2011-23/2011-23-wfftc/

In the 2010 budget, National froze the threshold for abatement at $36,827. The 2011 budget introduced further cost saving by a policy that over time increases the rate of abatement to 25% and further reduces the threshold to $35,000.9  The threshold is the level of gross household income at which 'abatement' starts to reduce the entitlement to WFF payments. For every dollar earned above the threshold level, the abatement rate is first applied to the FTC which is eventually reduced to zero, then to the IWTC.

From April 2016, the rate of abatement increased from 21.25% to 22.5%. The maximum IWTC entitlement had a belated, one-off inflation adjustment in 2016 from $60 to $72.50.

Overall, the loss of indexation to all part of the WFF package can be seen from Chart 1 that shows the decline in real (March 2016) expenditure on WFF.

**Chart 1 Real spending on Working for Families (source: derived from Budget 2016)**




To restore real spending in 2016 to 2010 levels (keep the rectangles the same height) another $700m is required in 2016. The cumulative loss to families from 2010 to 2016 is around $2 billion.

Table 2 shows how the components of WFF would be affected if fully adjusted for CPI and wages since their introduction to the third quarter of 2016.

Table 2 clearly demonstrates the slow erosion of the maximum WFF rates. For working families the biggest impact is from the failure to update the income threshold at which abatement becomes effective. If the threshold currently $36,350 had been price adjusted to mid-2016 it would be $44,500, or $51,982 if adjusted by wages.

Had a family on $35,000 in 2007, entitled to the full WFF, experienced the average growth in wages, its income would be $51,982 in 2016, but its entitlement to WFF would be reduced by $3,517 pa using the current threshold.

9 http://www.ird.govt.nz/technical-tax/legislation/2011/2011-23/2011-23-wfftc/

Table 2. WFF adjusted to CPI and growth in average wages

| | Nominal original values WFF 2005-7 | Fully adjusted for CPI to Q2 2016 | Fully adjusted for changes in average wage to Q2 2016 | Actual 2016 values (Abatement Rate increased to 22.5 %) |
|---|---|---|---|---|
| Family Tax Credit, first child (FTC) ($per week) | $82 | $98.07 | $114.45 | $92 |
| Family Tax Credit, each additional child | $57 | $67.74 | $79.11 | $64 |
| In Work Tax Credit, one to three children(IWTC) | $60 | $71.78 | $83.88 | $72.50 |
| Plus $15 for each additional child | $15 | $17.69 | $20.67 | $15 |
| Threshold, joint income (annual) | $35,000 | $44,484 | $51,982 | $36,350 |

# Critiques of WFF

The Ministry of Social Development (MSD) has repeatedly identified the IWTC as an effective tool which reduces poverty in low-income working families.

> *The fall in child poverty rates from 2004 to 2007 for children in one-FT-one-workless 2P households was very large (28% to 9% using the 50% CV-07 measure), reflecting the WFF impact, especially through the In-work Tax Credit. (Perry, 2016, p 138)*

The IWTC was also supposed to provide incentives for unemployed parents to find work, but not just any work - it requires finding enough hours of work to qualify. Many parents face persistent barriers to adequate employment, and their children miss out on this significant child payment.

> *From 1992 to 2004, children in workless households generally had poverty rates around four times higher than for those in households where at least one adult was in full-time work. From 2007 to 2015, the difference was even greater – around six to seven times higher for children in workless households. This change in relativities to a large degree reflects the greater WFF assistance for working families than for beneficiary families. (Perry, 2016, p 138)*

The problem was that when WFF was introduced, the poorest families gained some extra from the FTC but they were excluded from the IWTC and there were offsets to core benefits. This meant, "... the WFF package had little impact on the poverty rates for children in workless households" (Perry, 2016, p.142).

The IWTC has been criticised on many grounds including that it discriminates against the poorest children and is in breach of the fundamental Human Rights legislation (St John, 2014; St John & Dale, 2010)[10]. Now, in casualised labour markets, families can lose entitlement to the IWTC worth a maximum of $72.50 per week, or more for larger families, simply by losing hours of work. The rise in informal work without guaranteed adequate hours or other protections, increases the vulnerability of these families and their risk of debt. Being paid the LWR is no guarantee of enough hours of work or immunity from recessions, sickness or redundancy.

A second problem is that policies set in place from 2010, as described above, have steadily

10 See on page 47 at http://ips.ac.nz/publications/files/85630ff0208.pdf

undermined WFF for low-income working people, by increasing the abatement rate and lowering the income threshold at which abatement begins.

These changes impact on the ability of the LW to achieve the required outcome, even for families who are working full time at the LWR.  King (2016) acknowledges that the use of the wage adjustment for determining the LWR each year is dependent on policy on transfers remaining unchanged:

> *Because such policy changes tend to be infrequent, it is possible to maintain the currency of the living wage rate over the medium term by linking it to annual wage movements, as happens with the New Zealand living wage (King, 2016, p.21)*

However, failure to index WFF, and the schedule of reductions over time as outlined above is effectively a policy change.

# 4. Critiques of the Living Wage

Undoubtedly, workers who would otherwise have been paid the minimum wage benefit significantly when paid the higher LWR. Nevertheless there are some concerns that go to the heart of how the LWR is constructed.

Treasury (2013) outlined some of the limitations found in the methodology adopted by FCSPRU. In particular, their report criticises basing the LW on a household of two adults and two children, when the group on low incomes is actually very diverse.[11] Families comprised of two parents and two children are only 6% of the group earning below the LWR, and hence, scarcely representative. Treasury also notes that the LWR will be too high in low-housing-cost regions and insufficient for those living in high-cost regions.

Statistics show that 47% of poor children in New Zealand come from sole parent households, while 64% of all the sole parent households are identified as being poor in contrast to 15% of two-parent households (Perry, 2016, p. 151)[12]. Poverty rates for children in full-time working families are much lower than for those in beneficiary families and about three out of five of poor children come from families not supported by a full-time worker (Perry, 2016, p. 137). Paying the LWR is clearly not sufficient to address, let alone eradicate, child poverty in New Zealand (Treasury, 2013; Scott, 2014).

The Treasury report also suggests that at the LWR, adults who are single would be relatively overpaid compared to adults with dependent children.

In response to this particular criticism, the FCSPRU says:

> *Even though a single young person generally has lower costs than a family of four, a living wage enables young people to save, pay for further education or eventually place a deposit on a house. (King & Waldegrave, 2014 p. 7)*

Undoubtedly, an increase in the wage level would have a significant and welcome impact in easing the financial burden of the young with student loan debts and allow them to enhance their savings. Other groups, however such as sole parents, large families, two-parent families with only one working may continue to find it difficult to save, repay student loans or buy a house, even at the current LWR.

Deborah Mabbett[13] from the UK raises concerns about the practical implications of the LW concept, arguing that a LW cannot act as a substitute for social security. She warns that the framework of the LW campaign implicitly endorses an ideological norm of a certain family structure and behaviour. The concern is that those who do not live in families of the preferred type and/or work enough hours for whatever reason, do not achieve the LW outcome.

In New Zealand it must be acknowledged that even the standard family may struggle to achieve 60 hours a week for 52 weeks of the year. Their plight may be dismissed as evidence that they just need to increase their work effort.

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11 See http://www.treasury.govt.nz/publications/informationreleases/livingwage/pdfs/lw-2726820.pdf p2-4. It is argued in the paper that a living wage is not well targeted at low income families with children for the reasons discussed above.

12 Table H.8 Poverty rates and composition for children by their ethnicity and by characteristics of their households, based on the 60% of median CV (fixed line) AHC measure: average over last three surveys, HES 2011 to HES 2013.

13 Professor Deborah Mabbett BCA (Hons) (Victoria University of Wellington), D.Phil in Economics (Oxford), Professor of Public Policy Birkbeck, University of London.http://www.bbk.ac.uk/politics/our-staff/academic/deborah-mabbett/deborah-mabbett-2

While in a targeted system, payment of the LWR may increase income over the threshold and reduce state-funded family tax credits, it may also facilitate more deliberate reductions in the value of these tax credits over time.

In the case of the UK, Mabbett (2015) notes that a packaging of the LW with reduced tax credits has given rise to a 'looking glass world' where policies are sold as a package but actually work in opposite directions:

> *The Prime Minister's current favourite profile: a family with two children where both adults work full-time on the minimum wage. They will, he claims, be better off by 2020 under the government's new policy combo of reduced tax credits and a higher living wage. A quick check of HMRC statistics shows that there are just 135,000 households receiving tax credits (out of 3.3 million working households) comprising a couple with children where both adults work full-time. (Mabbett, 2015, p 465)*

Thus, in New Zealand when the standard family is paid the LWR they are much better off. This allows Government to get away with the erosion of family tax credits. Playing into this scenario is the unfortunate view of some that Working for Families is 'just a wage subsidy' and allows greedy employers to pay less:

> *Working for Families was and remains a massive subsidy for employers – a core constituency for National. It allows employers to pay workers less, because the tax-payer picks up the tab for supporting families which earn too little to pay the bills. (Gregory-Hunt, 2016)*

Were there alternatives? In the UK case Mabbett argues:

> *A more robust approach to the living wage would have been to take a stand on the appropriate role for in-work benefits. For example, the living wage could have been set to ensure that a single person in full-time work could make a living without needing benefit top-ups, and estimates of the additional costs faced by those with children could then have been used to make the case for adequate child benefits and childcare provision. The available data suggest that the living wage estimated this way would be above the new minimum…On this basis, it would be crystal clear that low-income families with children need support from the state even when a living wage is paid, and that increases in minimum wages do not substantially alter this fact. (2015 p. 467)*

This approach is also taken in Australia by ACOSS, described as a 'peak body of the community services and welfare sector and a national voice for the needs of people affected by poverty and inequality':

> *Our starting point is that the Federal Minimum Wage (FMW) should be designed to at least provide a decent living standard, well above poverty levels, for a single adult and that the tax-transfer system should meet the basic costs of raising children in a low income family. The FMW should not be directly designed to cover the costs of children because that role is best performed by the social security system. However the FMW together with family payments should be sufficient to prevent a family from*

*falling into poverty. The minimum wage itself should be set well above poverty levels, in keeping with Australian public policy tradition, and the need to maintain a gap between maximum social security payments and minimum wages to preserve work incentives.*[14]

In New Zealand, the CTU have advocated for a substantially higher minimum wage. They would like to see it at $19.88, which is close to where the LW is currently:

> *The minimum wage needs to be two-thirds of the average wage, this would make it much fairer (two-thirds of the average wage would be $19.88 per hour). Working people have been advocating for this change as a way to make real and measurable progress in improving the lives of some of our poorest families.*[15]

Despite the LWR critiques, it must be acknowledged and celebrated that the LW campaign has been successful in securing higher wages for an increasing number of low-waged workers in a climate hostile to such improvements. This has helped stem the drift to an ever-widening of the income distribution, and growth in profits at the expense of wage income.

14 http://www.acoss.org.au/wp-content/uploads/2016/04/ACOSS-minimum-wage-submission-2016_formatted-docx_FINAL_web.pdf

15 http://www.union.org.nz/minimum-wage-needs-to-be-two-thirds-of-the-average-wage/

# 5. The interdependence of LWR and WFF

As explained above, estimation of the LWR incorporates adjustments for WFF. This section asks two hypothetical questions:

The first asks: for the standard family on which the LWR is based, what would the gross rate have to be if there were no WFF?

The second asks: What would the LWR be if WFF had been properly adjusted since its inception?

The LWR that sets the family tax credits at zero, is calculated by leaving all other income tax rates and Accommodation Supplement in place. The corresponding hourly LWR in 2012 if there are no family tax credits, is $21.16.

The same method used by King and Waldegrave to update the LWR is applied to find the effect if WFF is set at zero for 2016. An implicit index of the hourly average wage rate is proxied by the ratio of the LW 2016/LW 2012 or 19.80/18.40. This suggests that the LWR for June 2016 would be approximately $22.80, or $3.00 an hour more than the current 2016 LW of $19.80.

Alternatively, the amount of WFF received by the standard family on a LW gross income of $61,776 in 2016 is $6,138. This represents a net addition to disposable income of $1.97 per hour. At the parents' marginal tax rate this is equivalent to a $2.40 gross addition to the LWR to compensate for no WFF.

The difference in the two estimates reflects the reduced contribution of WFF to the final disposable income of the family by 2016. Thus had the WFF entitlement of $6760 in 2012 also been adjusted by wages, it would be $7274 rather than $6138 by 2016.

The second question asks: What would the LWR be if WFF had been properly adjusted since its inception? If the WFF threshold and the entitlement amounts had been adjusted in accordance with the rise in the average wage rate, the LWR could be correspondingly lower.

Again determining the lower amount is a hypothetical exercise as WFF has never been adjusted for average wages, and it is based on the LW model family of one and a half income earners and two children and uses the calculations in Table 4.

In the calculation process, all other factors are held constant, and only two variables are of interest, namely, the LW and WFF entitlements. We know that in 2016 a total disposable income of $57,101 is required by the standard family (2 adults, 2 children, working 60 hours per week) to have a LW income. Removing the new tax credit amount of $14,427 gives the after-tax income of $42,674.

By working backwards and adding the effect of one and a half workers' income tax rates, we can find the annual gross income for this family, which is $51,726.45. The hourly wage that corresponds to this is approximately $16.60.

Table 4 Parameters of WFF faced by the standard LW family

| | Actual Values Q2 2016 | Fully adjusted for changes in the average wage to Q2 2016 |
|---|---|---|
| Family Tax Credit (FTC), two children, $per week | $157 | $194 |
| In Work Tax Credit (IWTC) two children, $per week | $72.50 | $84 |
| Sum of the weekly entitlements | $229.50 | $277.50 |
| Annual entitlements | $11,934 | $14,427 |
| Threshold, joint income (annual) | $36,350 | $51,982 |

Thus if WFF tax credits had been adjusted from the outset to the average wage, the LWR could have been as low as $16.60 in 2016.

Both of these calculations are illustrative only but show the importance of these tax credits and how they are indexed in determining the adequacy of the LWR.

Furthermore the LW is based on a model family profile that is unrepresentative of actual households. The LWR of $19.80 an hour delivers the required standard of living only ***if* the couple actually works 60 hours a week, 52 weeks of the year.**

For example, the family of one and half earners with two children, on the LW of $61,776 gross per annum gets $6162 of WFF tax credits. If one of the parents (usually the mother, working part time) cannot work, due to care-giving work (young children/disabled child/sick parent), or events like an earthquake or recession, the family would lose her $20,592, leaving $41,184 gross income. The family would receive an additional WFF tax entitlement of $4634 (i.e. $20592 x .225). While this extra WFF plays a vital role in cushioning the loss of the partner's income, it does not allow the family to have a LW standard of living.

# 6. Discussion

While the LWMA has done well in getting more employers to sign up to the LWR as higher wages are desperately needed, the LWR and WFF must operate as complementary mechanisms to achieve the shared goal of improving family income adequacy and preventing poverty.

All families, not just those on the LWR at 60 hours a week, but the bulk of other families with fewer hours of work or supporting more children need a robust system of income support. Wages are too low, not because WFF subsidises greedy employers, but due to a range of factors including loss of union power.

Mabbett's comments for the UK are relevant here:

> *Wages do indeed seem to be in something of a low-level trap, but not because tax credits are keeping them there. Most people in low-paid work do not receive tax credits, because they are too young (under 25) or do not have children. The main reasons why wages have stayed so low lie elsewhere: the erosion of unemployment benefits, the lack of financial support for students, the elastic supply of labour from elsewhere in the EU, the government's own pay policy for public sector workers and, of course, the decline of collective bargaining. ( 2015, p 466)*

The WFF programme has been dangerously undermined and is in urgent need of restoration and improvement. As the CTU[16] notes:

While Working for Families softens the effects of low wages for those households who qualify, some minimum wage workers do not qualify and its benefits are weakening as a result of thresholds not being adjusted for inflation. The government forecasts it will spend $2.392 billion on it in the year to June 2016 and $2.352 billion in the year to June 2017 compared to $2.796 billion in the year to June 2010 – worth $3.066 billion in June 2016 dollars. There has therefore been a sharp fall in Working for Families support (22 percent between 2010 and 2016) in real terms.

There must be greater awareness of the inverse relationship between the LWR and WFF and an active support of the enhancement of WFF as an intrinsic part of achieving adequate living standards for all family types.

16 See http://www.union.org.nz/wp-content/uploads/2016/12/Minimum-Wage-Review-2016.pdf

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