



Progressive universalisation of Working for Families

Policy measures for the children in the worst poverty

*A background paper prepared for
Child Poverty Action Group (CPAG)
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March 2018

Introduction

Prior to the 2017 election, both Labour and National parties pledged to reduce the numbers of children in poverty by 100,000 as a ten-year plan.

The Prime minister reaffirmed this target in a [ministerial statement](#):

The Government has set ten-year targets for reducing child poverty and hardship that will transform children's lives and establish New Zealand as having one of the lowest rates of child poverty in the world ... [We will] Reduce the proportion of children in low income households (using the before housing measure) from roughly 15 percent of all children to 5 percent. This reduces the number by more than half from 160,000 to 60,000.*

Both parties developed families' packages that were costed and modelled by Treasury for their impact by 2021 on child poverty. Based on this modelling, the Labour government claimed that

88,000 children would be lifted out of poverty. Unfortunately, there was an error in the modelling.

Treasury's March 2018 [revisions](#)¹ suggest that the package will have far more modest effects :

The projection based on "pooled data" estimates that there will be 54,000 (35%) fewer children in low-income households as a result of the Families Package. (The equivalent projection for the Budget 2017 Family Incomes Package is a reduction of 27,000 (17%).)... the 54,000 projection has the smallest statistical margin of error and constitutes the Treasury's current best advice on child-poverty projections, but that estimate is within a wide range (between 42,000 to 73,000).

This backgrounder is offered as a contribution to the policy discussion about what further should be done **now** to make government's targets of halving child poverty a reality and significantly reduce the worst child poverty while advancing the ideals of progressive universalism.

Background

In 2007 the Ministry of Social Development (MSD) identified "pockets of hardship".² The report was controversial. It was suppressed for a year and released with redacted elements. Importantly MSD in 2007 were raising alarm bells about the families that fell into unacceptable poverty:

In terms of outgoings to income, the WFF changes to the Accommodation Supplement have helped eligible low income working families and beneficiaries with earned income. But the research found that after paying for housing costs - and even with Accommodation Supplement - the median equivalised disposable household income for beneficiary families with some earned income falls to between 45% and 48% and for beneficiary families with no earned income it falls to below the very stringent 40% after housing costs poverty line, where there is nothing in reserve.

Ten years later the percentage of children under this poverty line are much the same, as illustrated in the table below (Perry 2017):

¹ Treasury. (2018). see: <http://www.treasury.govt.nz/publications/media-speeches/media/15mar18>

² Ministry of Social Development. (2007). <https://www.msd.govt.nz/about-msd-and-our-work/publications-resources/research/pockets-significant-hardship/index.html>

**Table 14.4 (see Table F.7)
Percentage of children below selected thresholds (AHC) – no smoothing**

Threshold type	Constant value or "anchored"		Relative to contemporary median			Population (000s)
	50% 2007 median	60% 2007 median	40% contemp. median	50% contemp. median	60% contemp. median	
HES year						
2007	16	22	11	16	22	1065
2009	18	24	13	20	26	1070
2010	17	26	11	20	30	1065
2011	19	25	12	20	27	1067
2012	19	24	13	20	27	1047
2013	17	22	13	19	24	1064
2014	17	23	-	21	29	1058
2015	15	21	12	20	28	1063
2016	12	18	12	17	25	1078

Between 2008 and 2016, the number of children experiencing the most severe poverty (under the 40% line) actually **rose from 105,000 to 140,000**.

The stubborn 'pockets of hardship' remain and **will remain** until the basic structure of Working for Families (WFF) is examined and reformed. The reason is that the families experiencing the worst of poverty are denied their rightful package of all tax credits that **were designed with the intention of reducing child poverty**.

CPAG's case against IWTC discrimination was heard in the Court of Appeal in June 2013³. While the Court found that the IWTC was discriminatory against children of beneficiaries, it held that the harm of the discrimination was justified because it was supposed to incentivise people into work. **The Court was reluctant to delve into the realm of social and economic policy, preferring to defer to Parliament on such matters.**

³ Child Poverty Action Group. (2013). <http://www.cpag.org.nz/campaigns/cpag-in-the-court-of-appeal-4/the-case-in-a-nutshell-1/>

**Numbers of poor children in New Zealand: rolling two-year averages from 2008
(ie the number of children in households with incomes below the selected thresholds)**

HES year	BHC			AHC				
	BHC 'anchored line (2007)' 50% (07 ref)	BHC 'moving line'		AHC 'moving line'			AHC 'anchored line (2007)'	
		50%	60%	40%	50%	60%	50% (07 ref)	60% (07 ref)
2001	225,000	120,000	250,000	115,000	215,000	310,000	285,000	380,000
2004	175,000	150,000	265,000	115,000	200,000	285,000	240,000	320,000
2008	130,000	135,000	210,000	105,000	190,000	260,000	180,000	250,000
2009	115,000	130,000	225,000	120,000	210,000	285,000	195,000	265,000
2010	105,000	135,000	240,000	130,000	210,000	295,000	185,000	265,000
2011	120,000	145,000	245,000	125,000	210,000	305,000	190,000	270,000
2012	115,000	135,000	230,000	130,000	210,000	285,000	200,000	260,000
2013	105,000	125,000	220,000	135,000	205,000	275,000	185,000	245,000
2014	-	135,000	230,000	-	210,000	280,000	180,000	240,000
2015	90,000	145,000	235,000	130,000	215,000	300,000	170,000	240,000
2016	75,000	140,000	215,000	140,000	210,000	290,000	155,000	220,000

Note: 40% of median AHC income poverty figures and 50% of median BHC figures are not reported for HES 2014 because of data issues for some beneficiary incomes – see Section A for details.

Year after year the MSD have highlighted that, the child poverty rate in 'workless' families was not addressed by Working for Families, making statements such as:

- Policy changes that have a direct impact on income (eg policy changes around benefit rates, income-related rents, the Accommodation Supplement and Working for Families settings all have clear impacts on the child poverty rates for children from working and workless households, **and on the relativities between the two groups**).
- The WFF package had **little impact on the poverty rates for children in workless households**.
- 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**.
- 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**.⁴

⁴ Ministry of Social Development. (2017). *Household Incomes Report*
<https://www.msd.govt.nz/documents/about-msd-and-our-work/publications-resources/monitoring/household-income-report/2017/2017-incomes-report-wed-19-july-2017.doc>

Labour has in the past understood this.

In November 2011, then-leader of Labour Annette King declared that under a Government led by Labour, beneficiary families would have access to the full Working for Families (WFF).⁵

King said Labour would amend WFF policy to extend the In-Work Tax Credit (IWTC) portion of WFF, then worth \$60 per week for families with 1-3 children, to all low-income families irrespective of their hours in paid work and help lift 150,000 children out of poverty.

How much is needed:

Boston et al shown in table below estimated that families on benefits would need a real boost to lift them to the 50% and 60% AHC lines **but did not indicate how they would do it.**

TABLE 1

How much additional weekly family income is needed on top of current welfare benefits to get over four poverty lines

	BEFORE HOUSING COSTS		AFTER HOUSING COSTS	
	50% of 2012 median	60% of 2012 median	50% of 2012 median	60% of 2012 median
Sole parent, one child	\$0	\$30	\$82	\$148
Sole parent, two children	\$0	\$78	\$111	\$194
Couple, one child	\$0	\$69	\$156	\$244
Couple, two children	\$0	\$110	\$184	\$286

CPAG is producing a full analysis of the amounts needed for families of different sizes who currently sit at 40% of the AHC line. But inflation-adjusted figures from Boston et al are used here to illustrate.

If we assume the accommodation costs rise since 2012 is assumed to be cancelled out by the rise in the Accommodation Supplement in the Government's 2018 Families Package, we can concentrate on the AHC figures. To illustrate the problem, inflating the figures from Boston by

⁵ Radio New Zealand. (2011). <https://www.radionz.co.nz/news/election-2011/90338/labour-would-extend-working-for-families>

5%, a sole parent with one child needs another \$86 and a couple on a benefit with one child needs another \$165 per week just to get to the 50% line.

Ignoring that some families will get Best Start if they have a newborn, the shortfall is large even after the Government's Families package. The package, not due until 1 July 2018, gives only another \$20 a week in the Family Tax Credit to a one-child family and only an extra \$47 for two-child family.

There is a serious implication

If this Government is serious about lifting 100,000 children out of poverty and really wants to deal with the pockets of hardship problem ignored for so many years, it cannot credibly do this by relying on lifting the Family Tax Credit.

So for example if the FTC was lifted a further \$66 per week for the eldest child (over the Family package increase of \$20 per week), and there are approximately 400,000 families who get WFF or part of it, the cost would be approximately \$1.4 billion.

The high cost reflects that it will go a long way up the income scale. The dilemma is that reducing the threshold for abatement and raising the rate of abatement would have many more undesirable consequences for working families. These include more complexity and higher disincentives to work.

Solution for immediate reduction of severe income poverty

The cost-effective solution to meaningfully reduce the most entrenched child poverty is to deliver substantial new money to the very lowest income families AND to confine it to them alone. Apart from eliminating sanctions and making sure all families get their rightful benefit entitlements, the obvious tool to use is to join is the IWTC of \$72.50 a week to the first child payment. It would go to only those at the bottom as they are the ONLY ones who don't get it currently.

An additional \$15 a week per child for the fourth and subsequent children is currently added to the IWTC. **That should be abandoned or slowly absorbed into the FTC rates.**

The cost of giving 100,000 benefit-dependent families the IWTC over a year would be \$377 million per year. There are possibly another 50,000 families who miss out on this credit, some for part of the year. It is likely that there would be an equivalent of 125,000 families who would benefit from full IWTC extension, at a cost of approximately \$470 million.

171,409 children in families on benefits would gain through the inclusion of the IWTC as part of the WFF tax credit package for all low-income families and maybe another 50,000 whose parents do not meet hours of work, around 220,000 children in total.

A failed work incentive

The irony of thinking that IWTC is a work incentive is that to contain WFF costs a high abatement rate of 25% is needed. This creates very high effective marginal tax rates for low income working families-trapping them and making extra efforts not worthwhile.⁶

The operation of the IWTC is full of anomalies as CPAG has long highlighted.⁷

Political considerations

Treasury's revised figures⁸ on projected child poverty numbers make it clear that current measures in the Families Package are not enough to meet child poverty reduction goals.

Decisive action is needed

Extending the IWTC will reduce the need for MSD hardship grants which in recent times have mushroomed⁹. This will reduce the overall government expenditure on supplementary assistance and significantly improve families' chances of making their way into better financial health without the added stress of queuing for food parcels and housing grants, or surmounting debt to fringe lenders.

Moreover the extension of the In-Work Tax Credit fits with Labour's future of work project. To meet fixed hours of work per week to qualify for a child-related payment is both unjust and seriously out of step with the nature of work in a casualised labour market.

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⁶ Newsroom. (2017). <https://www.newsroom.co.nz/@future-learning/2017/05/30/31399/time-to-break-open-nzs-decades-long-poverty-trap>

⁷ Child Poverty Action Group. (2016).

http://www.cpag.org.nz/assets/160317FWWcampaign_FAQ_FINAL3_29316.pdf

⁸ Treasury. (2018) <http://www.treasury.govt.nz/publications/informationreleases/child-poverty-error>

⁹ Ministry of Social Development. (2017) <https://www.msd.govt.nz/about-msd-and-our-work/publications-resources/statistics/benefit/latest-quarterly-results/hardship-assistance.html>