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Preventing, Mitigating or Solving Child Income Poverty?

The Expert Advisory Group 2012 report

In March 2012 the Expert Advisory Group on Solutions to Child Poverty (EAG) was established by the Children's Commissioner to make recommendations that, if not fully 'solving' child poverty, would realistically reduce and mitigate its effects. The advice was to inform the Ministerial Committee on Poverty, whose focus was specifically on tangible gains 'getting value for money in a tight economic climate' (Commissioner for Children, 2012).

As the final report outlines, approximately 270,000 New Zealand children live in poverty, some for long periods of time and often in considerable deprivation (EAG, 2012a). The consequences of this

for the well-being of families, for society, and the young children themselves are beginning to be appreciated by the wider New Zealand community. This newfound understanding is one clear achievement of

the work of the EAG, and the many other organisations which have laid out the causes and consequences of child poverty before the public over many years.

The EAG describes child poverty as multidimensional, requiring a holistic approach. Many of the 78 recommendations reflect this concern. Nevertheless, as Working Paper 3 argues from the literature, sufficient money income, regardless of the source of that income, is the important and key element of family and child well-being (EAG, 2012b). While many other aspects of policy, such as health and housing, are critical, and are well addressed by the report, the EAG agreed that as an essential part of the package the incomes of families must be improved significantly. In terms of measurable outcomes, it is only if incomes increase that numbers below income-determined poverty lines will reduce.

This article focuses on only the income policy recommendations in the final report. The main ones, found in the section titled 'Tax credits, benefits and income support' (pp.38-43), are summarised in Box 1. Working Paper

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Box 1: The Expert Advisory Group solutions for family income assistance

- 1 In the short term, the maximum family tax credit for all children to rise to the first child over-16 rate of \$102 per week. This requires an increase of \$9.25 per week for a first child aged 0–15 years; \$37.54 per week for additional children aged 0–12; and \$28.48 per week if aged 13–15.
- 2 The rate for children aged 0–5 to subsequently rise further.
- 3 In the longer term, to amalgamate the parental tax credit, the minimum family tax credit and childcare subsidies to give a universal payment which reduces as the child ages and is targeted from 6 years on.
- 4 Child support pass-on of \$10 per week where applicable

Source: Expert Advisory Group, 2012a and 2012 c

Box 2: Policy development framework

- 1 Clarify the problem.
- 2 Set clear objectives (aims) for policy.
- 3 Make aims measurable or quantifiable.
- 4 Select policy criteria and economic thinking.
- 5 Assess a full range of policies that might achieve the objectives.
- 6 Select and design the best policy; project expected costs and outcomes.
- 7 Implement policy.
- 8 Measure outcomes against clearly-stated, measurable objectives.
- 9 Review unintended consequences.
- 10 Evaluate policy against criteria; confirm that the problems and the underlying economic model have been properly conceived; and suggest improvements.

Source: adapted from St John and Dale (2012)

10 (EAG, 2012c) also informs this critique, although many policy changes recommended in that paper were quite extreme and were not picked up in the final report. The conclusion assesses the EAG report’s recommendations and analysis against the criteria of cost-effectiveness, the requirement to have an evidential basis, and the account taken of the economic and fiscal context.

Following a framework for policy development

Here a simple framework, set out in Box 2, is first used to clarify the steps in the EAG’s development of policy recommendations. Given that policy recommendations have not yet been implemented, steps 7–10 are best thought about in principle, although they should be part of any policy process which seeks to understand why existing policy has not worked to meet the poverty reduction objectives.

Clarifying the problem

As set out in the foreword to the final report, the EAG intended its work to result in ‘better outcomes for the most needy and deprived children.’ The executive summary says that it is not true that New Zealand is a great place for the 270,000 children living in poverty. The ‘problem’ of child poverty was described as costly for these children themselves, with statements such as: ‘childhood poverty can leave life-time scars’ (EAG, 2012a, p.vi).

In defining the problem of child poverty there was an emphasis on a ‘rights’ approach: the rights of every child to an adequate standard of living and to achieve their full potential. The EAG implied that it is a moral issue that these rights are denied by poverty: ‘No child should experience severe and persistent poverty, least of all in a land of abundance.’ (EAG, 2012a, p.i). Moreover, Working Paper 10 outlines the key obligations under

articles 26 and 3.1 in the United Nations Convention on the Rights of the Child (UNCROC) as priority considerations in designing policies to address child poverty:

Article 26 of the UNCROC, recognising the right of children to social security and the corresponding obligation of the government to implement measures necessary to achieve full realisation of that right. Article 3.1 of the UNCROC, recognising the best interests of the child to be given primary consideration. (EAG, 2012c, p.5)

As well as the ‘rights of the child’ approach to justifying eliminating child poverty, child poverty was described in the final report as having very high costs to society in terms of forgone output and productivity. The costs for society were quoted as \$6–8 billion per annum (EAG, 2012a, p.vi). Child poverty was seen as making it difficult to achieve desirable social goals, such as lower rates of child abuse and better educational attainment, which in turn affect economic performance. The problem was conceived as most damaging when very young children were in poverty as ‘many significant aspects of child development occur in the earliest years’ (EAG, 2012a, p.vi).

So, at a high level, the problem was understood comprehensively, in part requiring normative or moral judgements of what is right, and in part relying on positive arguments about the impact on and costs to the economy. Some of the working papers had described the children who are most likely to experience poverty, such as Māori and Pasifika children, but a clear picture of where these children are found was missing in the final report (see pages 51-53 below). Also missing was a clear description of current policies for family incomes and analysis of why existing policy had not worked, despite the intent to take an evidential approach and the numerous references made to past limitations, such as:

A major reason for these problems is that the current policy instruments are not well-designed, do not

function well together as a system, and may even in some cases work against each other. (EAG, 2012c, p.3)

Set clear objectives (aims) for policy

The EAG was adamant that 'the best interests of the child must be at the heart of any new policy package' (p.39). By implication this meant that real relief of the poverty of children would be paramount. By examining the goals and objectives outlined it is clear that the EAG saw the need to address, immediately, severe deprivation and its persistence. However, it discussed reducing poverty in the long term as an additional and separable goal:

The recommendations we are proposing will have a mix of goals, including alleviating the worst material hardship now as well as reducing the extent of poverty over the longer term. (EAG, 2012a, p.39)

Select measures

Using a common measure of a poverty line based on 60% of the median disposable household income after housing costs, the EAG noted that of the 270,000 children in poverty, 170,000 fell below the 50% line and thus were in the deepest poverty (EAG, 2012a, p.4). The intent of the EAG was clearly to address the worst poverty: 'we have focused on solutions that reduce severe and persistent child poverty' (EAG, 2012a, p.vi). It could be expected, therefore, that the EAG would aim to reduce the child poverty rate significantly on the 50% measure.

Another core priority was to take an investment approach in the first years of a child's life, as that was seen to have the biggest marginal returns. To achieve this, the EAG drew on the capabilities approach of Amartya Sen as suggesting that 'adequate financial resources enhance the capability of children and families to function well and have lives that they have reason to value' (EAG, 2012a, p.29). Therefore, one measurable outcome for the EAG might have been that incomes of families with infants would specifically and significantly increase.

In the final EAG report a key recommendation was the setting up

of a statutory-based poverty reduction strategy. The government was exhorted to legislate a Child Poverty Act, monitor five official measures of poverty and 'set targets to reduce child poverty' (EAG, 2012a, pp.37-8). Child poverty-related indicators were also to be monitored in education, health, social inclusion, disability and quality of life.

The report said that a 30-40% reduction in child poverty was needed 'with even more ambitious targets for reducing severe and persistent child poverty'. Moreover, such targets should incorporate 'an accelerated rate of poverty reduction' for Māori and Pasifika so that they 'achieve parity ... with other children' (EAG, 2012a, p.38).

Reflecting the background paper's belief in the value of paid work, there is little acknowledgement of the unpaid work of child-rearing and nurturing, and the opportunity costs of such care which often are only visible when someone else has to be paid to do it.

Thus, it can be inferred for the purposes here that child poverty was to be reduced by the EAG's recommendations as measured on both the 50% and the 60% lines, and on other measures of deprivation, with particular and short-term urgency in addressing the severe and persistent child poverty that disproportionately affects Māori and Pasifika children.

Select policy criteria and economic thinking

Typically, criteria of cost-effectiveness, economic efficiency, equity and administrative simplicity are used in policy analysis. These have a normative content: the size of the trade-offs are not usually known with precision and normative positions tend to be adopted as to the importance of the trade-off costs.

Cost-effectiveness is the extent to which the policy objectives are met at least cost. A highly-targeted payment that lifts the poor families significantly

is cost-effective but some may argue that there are significant trade-offs, such as efficiency and administrative simplicity costs. In general, efficiency costs are perceived as lowered incentives to work, thus affecting economic growth.

The EAG acknowledged that fiscal constraints required cost-effectiveness, and that policy should have a good evidential base. It did not go to great lengths to examine the evidential base, namely how economic efficiency, requiring the minimisation of disincentives to work, was actually affected by various policy options.

The criterion of equity may be less important when the goal of policy is inherently to improve equity, but is worth having in its own right, encompassing as

it does notions of horizontal as well as vertical fairness. In terms of this exercise, vertical equity is fundamentally about improving child poverty. If one group is to get more, another group must get less in a purely distributional exercise; how much more and what groups should get less is a normative judgement. Horizontal equity, commonly taken as self-evident, requires that children in the same horizontal position be treated the same. If some poor children are treated less generously than others, a greater poverty of the former group can be inferred. The EAG did not discuss this aspect of equity or whether current policy was falling short in ensuring that obligations under UN Convention on the Rights of the Child were being met.

As is often the case in policy reforms, administrative simplicity is an underrated criterion and gets only a cursory mention in the background documents and in the final report.

Behind the development of any policy will be an implicit view of how the world works. Glimpses of theories or models that informed the EAG policy development can be found in the final report. These glimpses were informed by background paper 10, which takes a strong stance reflecting a profound belief that for almost all parents, including sole caregivers of very young children, paid work is the way out of poverty, that financial incentives matter, and that incentives are effective.

Raising benefit rates can be an effective strategy in reducing child poverty, but it can be costly and may reduce incentives for paid employment. (EAG, 2012a, p.31)

Reflecting the background paper's belief in the value of paid work, there

In spite of an acknowledgement that 'the In Work Tax Credit (IWTC) is one of the means government uses to reduce child poverty' (EAG, 2012a, p.26), there is an implicit belief that work incentives are effective, and that the reason the IWTC is denied to the poorest families has a rational basis:

IWTC-type arrangements are widespread across the OECD. Their attractiveness is that they encourage more parents into paid employment, and enhance equity by: raising incomes of children in low income working poor families, and addressing transport and childcare costs that non-working parents and nonparents do not face. (EAG, 2012c, p.26)

While acknowledging that 'Some see this reward only to children whose

of inequality in the pre-tax, pre-benefit distribution. For those countries, such as New Zealand, with more market income inequality, the tax and benefit system has to work harder to achieve distributional goals. Second, countries have widely different systems of in-kind provision, such as subsidised child care, health care and education. New Zealand has a high degree of user pays charges in these social services. For example, it is not uncommon for parents to pay over \$200 a week for day care for 3–4 year olds, even with the 20 hours' free subsidy. Third, countries differ in the way the tax system itself affects low-income people. So, in Australia, for example, the first \$18,000 of income is tax free and GST is only 10%, with exemptions to help the poor. This contrasts with the flattish tax structure and 15% GST with no exemptions in New Zealand.

Nevertheless, it would have been useful to ask how children are supported in Australia, for two reasons. First, we have a somewhat similar colonial heritage, and proximity. To be too far out of line with Australia on family policy would have to be based on sound reasons, especially in light of the current imbalance in the flow of young New Zealand families to Australia. Second, Australian child poverty problems are less severe and their child tax credits are given to all low-income children on the same basis, so there may be lessons to learn from policy design.

What is more surprising in the EAG report is the lack of analysis of existing New Zealand policies that aim to reduce child poverty. The complex mix of tax credits that make up Working for Families was announced in 2004 by the minister of social development, Steve Maharey, who claimed that they would deliver a child poverty outcome comparable to that of Scandinavian countries. On the 50% measure, he expected the rate of child poverty would fall from 14.7% to 4.3% by 2007 (Collins, 2005). So why not examine why, in spite of this programme, there was no such fall for these, the poorest children? In fact, Perry (2012) shows that the proportion under the 50% line remained at roughly 16% for the four years 2007–2011, after a slight fall from the early 2000s. Even using a stringent definition, the material deprivation of children actually

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Research indicates that a parent obtaining full-time paid employment with sufficient earnings is the most important event to lift children out of poverty. An adequate safety net is also required for those who are unable to work and to acknowledge the impact of economic conditions where jobs are scarce. (EAG, 2012a, p.38)

It is unlikely that the majority of the Expert Advisory Group members actually thought exhorting parents to full-time work was relevant to meeting the immediate needs of the 170,000 children in severe poverty.

parents are in employment and poor as discriminatory and hence undesirable' (EAG, 2012a, p.26), the counterargument is made that there are other highly discriminatory policies, such as paid parental leave and the policy to give child support pass-on to children supported by a sole parent on a benefit. But the fact that other policies also discriminate does not justify the exclusion of around 234,000 children from the IWTC, the aim of which includes child poverty reduction.

Assess a full range of policies that might achieve the objectives

While the EAG had discussions with many overseas experts, it did not report on any detailed analysis of what works well in other countries. In general that was a wise decision, as international comparisons are fraught with danger, for three reasons. First, countries start with different degrees

increased, from 15% in 2007 to 21% in 2011 (Perry, 2012, pp.124, 166).

Specifically, by 2007 the Working for Families aim to reduce child poverty by 30% on the 60% measure and 70% on the 50% measure had clearly been ineffective for the very poorest. Bryan Perry, the Ministry of Social Development's leading poverty analyst, wrote: 'WFF had little impact on the poverty rates for children in workless households' (Perry, 2012, p.131). Why was this result not analysed, and is this the elephant in the room?

In light of the actual recommendations from the EAG, it would have been expected that the debate over universal versus targeted provisions, and especially why universal approaches work best for children, might have been a key discussion. The EAG relied heavily on the OECD's generalisation that countries with universal child support programmes achieved lower poverty rates. But this is not true of the United Kingdom, for example, and it would be simplistic to attribute New Zealand's lower poverty rates in the 1980s to the universal family benefit of the time. Universal payments that meet poverty objectives are expensive and require progressive taxation for fiscal sustainability. In a world of accelerating inequality and low tax, the arguments for a universal payment become harder to make. The section which discusses this issue reflects ambivalence in the report: 'Our recommendations include a mix of universal and targeted forms of assistance, depending on the policy context' (EAG, 2012a, p.32).

Select and design the best policy; project expected costs and outcomes

In selecting the policy recommendations the EAG was not given access to Treasury modelling capability, and there are few indications of serious costing and distributional analysis. The lack of costing is disturbing, given the intent to consider the fiscal constraints. Instead, there is a rough ballpark figure of \$1.5–2 billion for the policies set out in Box 1, suggesting that a dramatic fall in child poverty should have been the outcome. The EAG was a diverse group and did not reach a consensus agreement on several key aspects of what were the best policy choices.

Evaluation

The steps above suggest that after implementation, outcomes should be measured against the quantifiable objectives. Other steps that should be taken are to ask if there are unintended consequences; to evaluate policy against criteria; to confirm that the problems and the underlying economic model have been properly conceived; and to suggest improvements. By using this frame, there might have been some examination of current policies and their outcomes and unintended consequences, and a revisiting of the rationale of the underlying thinking.

In particular, a thorough examination of each part of the existing set of tax credits was required, including the family tax credit (FTC), the minimum family tax credit (MFTC), the IWTC and the

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parental tax credit (PTC) that make up the Working for Families package. What is the evidence that the work incentive aspects of the complex mix have achieved their objectives? Is each tax credit well designed? Are there problems not foreseen, such as the way the system fails to protect low-income children in a recession or natural disaster? What is the cost of each part of the package? What are the efficiency costs of, for example, the MFTC with 100% effective marginal tax rates? How many children and families get each part of the package? How are Māori and Pasifika children affected? Who misses out and why?

Who are the poor children who need a solution?

As Perry notes, there is not a perfect fit between the families in hardship and those below the conventional poverty lines: thus, some families with income above the poverty line may have special

circumstances (ill health, or high housing or transport costs) that reduce their living standards (Perry, 2012, p.4). Conversely, there are some families below the income poverty line who may not be in hardship because of access to whānau support and other resources. It may also be that when families first come onto the benefit they have income from work as part of their annual income. As discussed in Perry (2012), children in families below the 50% poverty line are largely found in benefit-dependent families. The government had been told on many occasions of the degree of deprivation in this group. For example, a report for Ministry of Social Development in 2007 entitled Pockets of Significant Hardship raised alarm bells about some families who were falling below even the 40% line (Centre for Social

Research and Evaluation, 2007).

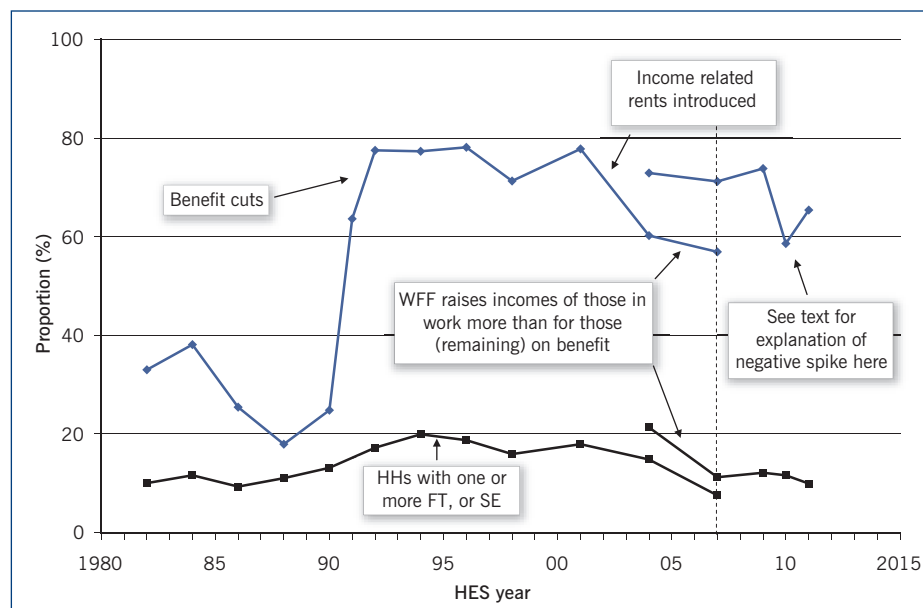
For the non-working poor, after the introduction of Working for Families child poverty rates became very much worse than for working families:

[C]hild poverty rates in workless households are consistently several times higher than those for children in working households (three to four times higher in 1992 to 2004, six to seven times higher from 2007 to 2011 after WFF). (Perry, 2012, p.131)

But while Working for Families was of most benefit to 'working' families, two out of every five poor children are still found in such families. This suggests that Working for Families was necessary but not sufficient for all working poor families:

the WFF impact was significant for this group, with the rate in 2007 (11%) half what it was in 2004 (22%); nevertheless, on average from 2007 to

Figure 1: Poverty rates for children in 'workless' and 'working' households (after housing costs 60%, fixed line)



Source: Perry, 2012, p.131

2011, around two in five (40%) poor children still came from working families – down from just over one in two (52%) in 2004 before WFF. (Perry, 2012, p.131)

We also know that the incidence of child poverty is much higher in larger families:

Children in households with three or more children generally have poverty rates considerably higher than those with only one or two children (e.g. 28% and 18% in 2011, and similar in 2007, 2009 and 2011). In 2011, children in these larger households made up just under half of all poor children (48%). (Perry, 2012, p.126)

However, this means that just over half of children in poverty are in one- or two-child families. Many of these families will have just one child under 5. We also know, and the EAG acknowledges, that young children are more likely to be in poverty (27% aged 0–11) than older children (22% aged 12–17) (p.5). But this is a slender difference and one that does not support the conclusion reached in Working Paper 10 that the assistance for older children should fall. This idea, based on the belief that all parents of older children are more able to work, was not explicit in the final report. Instead, the EAG says that the new child payment

should have the highest value during the first five years of a child's life, reduce as the child ages and be targeted based on family income from age 6 onwards (EAG, 2012a, p.41).

In December 2011, parents depending on a main benefit, including around 100,000 sole parents on the domestic purposes benefit (DPB), were caring for 234,600 children aged 0–18 years (Ministry of Social Development, 2012b, p.34). Of these children, 180,845 were cared for by DPB recipients (Children's Social Health Monitor, 2012, p.4). But we must not lose sight of the other 54,000 children supported on other benefits. The couple rates of unemployment, sickness and invalid's benefits are very low and do not make any allowance for children. This, combined with the harsh clawback rates on these benefits, suggests that these 54,000 children are likely to be at serious risk.

When full-time work is impossible, part-time work has the potential to improve a family's living standards. Some sole parents on the DPB have additional weekly income and it is fair to surmise that those families are probably better off as a result. But the number on the DPB declaring extra income is small, about 20,000 (Ministry of Social Development, 2012a) and the proportions have fallen, reflecting the harshness of the clawback provisions. Additional income

for beneficiaries is penalised on the presumption that full-time work is the only kind desirable, and part-time work should be discouraged. It is a weakness or omission that the EAG report did not consider such nuances around the levels, adequacy and clawback features of social welfare benefits.

To understand why child poverty is such a big problem it is important to study and reflect on the history of child poverty. While some data were given, this dimension is missing from the EAG report. Contemporary elements of this history are set out in Figure 1.

As Perry explains, child poverty rates in workless families were very high from 1992 to 2001 (after the benefit cuts) and were typically just under 80% using the after housing costs 60% fixed line measure (CV-98). The introduction of income-related rents was effective in reducing the child poverty rate from 2001 (78%) to 2004 (60%) for children in workless households. In the significant fall in the rate of child poverty in working families after Working for Families in 2005, the IWTC played a key role:

The fall in child poverty rates from 2004 to 2007 for children in one-F[ull]-T[ime]-one-workless 2P[arent] households was very large (28% to 9%), reflecting the WFF impact, especially through the In-work Tax Credit. (Perry, 2012, p.126)

In contrast, Perry notes, Working for Families 'had little impact on the poverty rates for children in workless households' (ibid., p.131). And we can take no comfort from the dip in the figure post-2008:

The significant drop in poverty rate for children in workless households from the 2009 to the 2010 HES is likely to reflect the fact that many of the 'new' beneficiaries came from employment, and although identified as 'workless' at the time of interview still had sufficient income in the 12 months prior to interview to keep the household above the poverty line. (ibid.)

To summarise: the 170,000 children below the 50% poverty line are in the worst poverty. At least one third of these

are in one-child families and half of all children in poverty are in one- or two-child families. In addition, it is clear that while working families were helped by Working for Families, about 100,000 of the 270,000 poor children are in 'working' families, i.e. families not on benefits. This suggests that even the full Working for Families package is not sufficient for their needs, and suggests caution in cutbacks, such as those set in train in the 2011 budget (discussed below). The EAG is silent on such current policy issues.

Much of the problem for working families is driven by high housing costs, suggesting that an important focus of the EAG should have been on housing costs. While quality of housing was considered in the report, there is little discussion of the costs of housing. The role of the accommodation supplement is lightly touched on with vague recommendations (little more is said in the relevant section in Working Paper 18).

The EAG's recommendations: do they achieve the objectives?

The major recommendation of the EAG final report was to align the maximum rates of the family tax credit for all children, as set out in Box 1. The EAG suggested that that would give on average another \$17 per week per child. The one-child families who currently get an FTC of \$92.70 would gain only another \$9.25 a week. Given that 50% of approximately 100,000 sole parents on the DPB have only one child (Ministry of Social Development, 2012a), at least 50,000 of the poorest children would get minimal immediate help. While some focused help from the EAG might be at hand from the \$10 per child pass-on of child support, this recommendation does not provide extra for all children and, besides, the recent amendment of the Child Support Act has ruled out any pass-on.

Because the FTC rate increases would be paid to families on higher incomes it is also an expensive policy. For example, a five-child family with children under 13 on around \$121,000 of household income is currently entitled to no FTC (but is still getting \$90 from the IWTC per week). The FTC for this family would increase to around \$160 a week. This is

probably desirable, as New Zealand is well behind Australia in helping higher-income families with young children, but this expenditure on higher-income families would not have an impact on child poverty.

The paying of more to families well up the income scale also flies in the face of political reality. As mentioned, budget changes in 2011 have already set in train a series of automatic changes out to 2016 which reduce the generosity of Working for Families for all families above \$35,000 of total income.

The elephant in the room is the IWTC. What is the function of this payment? At the high cost of \$592 million per annum (about 21% of total Working for Families tax credits), is it fulfilling its objectives of incentivising work which necessitate

would be 'achieved by pooling the current family-focused benefits and tax credits' (EAG, 2012a, p.41). Background paper 10 reveals that the IWTC was omitted in this amalgamation, however, and would presumably remain. The new child payment would have the highest value during the first year of a child's life and reduce as the child ages and be targeted on family income from age 6 onward.

The EAG say that a universal payment would 'give proportionally more to children in poorer families, while recognising that all parents with young children face significant costs', and 'be simple and transparent, with relatively low transaction and compliance costs and have virtually 100 percent take-up from birth' (p.41). These justifications for such a universal approach for all children

Ominously, the EAG suggest that the child payment could replace a number of existing child and family supports ... [and if] the IWTC is included, many of the poorest will get little if any more than they currently get, but with the possibility of getting less in childcare subsidy as well.

it being paid so far up the income scale while its child poverty-reducing benefits are denied to the poorest children?

The EAG's second main proposal was to 'subsequently and incrementally' raise the rates further for children aged 0–5 years inclusive (EAG, 2012a, p.39). At the very least this proposal requires a detailed analysis of how current policies are inadequate. Currently, neither paid parental leave nor the parental tax credit work well for the poorest children, or for many other newborns for that matter (St John and Familton, 2011). Here, as in other parts of the system, New Zealand is well behind the inclusive approach taken in Australia, where all newborns are assisted either by a much more inclusive and generous parental leave payment or by a baby bonus of \$5000.

In the longer term, the EAG suggested a fully universal child payment for children aged 0–5 years inclusive. This

under 6 are weak if the objective of child poverty is kept in mind. Logically, if these children aged under six are to be helped only by a universal payment, unless the payment is set higher than current levels there will be no impact on child poverty. But a third of all children are under the age of 6, so to pay each of them even only what is currently provided in the full Working for Families package would very expensive. To give each of them an average of \$7,000 a year would cost \$2.4 billion, nearly the whole of the current cost of Working for Families.

Ominously, the EAG suggest that the child payment could replace a number of existing child and family supports, including the FTC, the MFTC, the PTC and the childcare subsidy. If the IWTC is included, many of the poorest will get little if any more than they currently get, but with the possibility of getting less in childcare subsidy as well. On the other

hand, if the IWTC is not included in the wrap-up (and it appears not to be), higher-income working families would be over-compensated. A much stronger, more realistic case could have been made for a universal payment for just the first year of a child's life, where all child subsidies, including childcare, the PTC, FTC, IWTC and tax-funded paid parental leave, are amalgamated to give a payment of a significant amount.

The EAG recognised the problems with the IWTC – ‘We recommend that the government reform the In-Work Tax Credit (IWTC) to better assist families in poverty’ (p.41) – and lists some possible options:

- 1 amalgamating the IWTC with other in-work credits and redistributing the available funding to low-income families with children;

... the declaration that ‘Every child in New Zealand has the right and should have the opportunity to grow up without experiencing severe or persistent material deprivation’ (p.8), the EAG’s specific recommendations on income support fall far short.

- 2 making the payment larger, but abating the assistance more quickly to ensure those with the lowest in-work family incomes benefit most;
- 3 altering the work-hours test and thresholds; making the value of assistance more closely related to the number of children;
- 4 having a time-limited IWTC to assist the initial transition to work (e.g. for six to 12 months).

Unfortunately, there is no guidance or distributional analysis or costing of any of these options. Some of them would transform the very nature of this very significant poverty alleviation measure. First, the amalgamation of the IWTC with other ‘in-work credits’ is hard to fathom. There is no discussion of these other in-work tax credits. Those with a work focus are the very minor PTC and MFTC, neither of which is explained in the report. Missing here is the important

possible amalgamation of the IWTC with the FTC which would be highly redistributive and have an immediate impact on the worst child poverty. Perhaps this is not an option because, as the EAG believed:

While such a change would increase the incomes of many families in greatest need, it would no longer provide an incentive and support for families moving from welfare benefits to low-paid work to help ‘make work pay’. (EAG, 2012a, p.41)

Second, making the IWTC larger without analysis of who gets it obscures the result that it would simply go far further up the income scale. Already it is questionable that high-income families, for whom the IWTC is abated last, actually need a work incentive. Third, altering the

work-hours test and thresholds displays a misunderstanding of the IWTC: the tax credit does not have a separate family income test, as background paper 10 (p.16) suggested; rather, there is a test that a family has to be off-benefit. Making the IWTC more closely relate to the number of children is a concession that, rather than being a work incentive, this is a payment for children. Fourth, a time-limited IWTC to ease the transition to work would cost a tiny fraction of the existing cost of the IWTC, and, while a completely different approach, may be a much more sensible one to providing a work incentive.

Discussion

The EAG placed a good deal of emphasis on public consultation, and highlights this comment in the discussion of taxes and benefits: ‘Surely it’s not too hard to see that an overhaul of our taxation/wage system is long overdue’ (EAG, 2012a, p.39).

Exhortations to overhaul the taxation/wage system, to have an independent review of all tax credits for children, and to put children at the centre of social security legislation ring hollow in the absence of explaining to government exactly how its tax credits and income policy currently fail to put the best interests of children first. For example, Working for Families puts paid work at the centre and excludes from a large part the very target group the EAG is concerned about. Also, current policies for the income support of newborns are woefully exclusive and work very badly for many of the poorest families.

The EAG was very concerned about take-up rates of all benefits, including the in-work payments, noting the difficulty many families had in negotiating the complex maze. Was the complexity of the system necessary to deliver the objectives of Working for Families? If not, the current situation is very serious indeed.

[R]espondents emphasised that, because accessing information about benefits and income support is not straightforward and, once accessed, difficult to interpret, many families need assistance to determine what their child and family may be entitled to receive. (EAG, 2012a, p.40)

There is no analysis of current policy on indexation provisions: for example, a group of poor working families on around the minimum wage get less over time as the threshold of abatement is reduced to \$35,000 by 2016 from \$36,875 in 2011, and the rate of abatement increased from 20% to 25%. Also, Working for Families is indexed only to prices and only when cumulative inflation exceeds 5%. Making no mention of current policy makes it difficult for anyone to understand what new changes the EAG is proposing:

We recommend that the government index all child-related income support, benefits and tax credits to ensure support keeps pace with productivity growth in the broader economy. (EAG, 2012a, p.40)

Finally, covering itself for not having completed the job it was challenged to do, it says:

We recommend that the government commission an independent and comprehensive review of all child-related benefit rates and relativities, with a primary goal to reduce child poverty (EAG, 2012a, p40).

Looking at the adequacy of benefits is clearly important, given that 60% of children in poverty are in families on benefits, many below the 50% line. Unfortunately, for the EAG, like the Tax Working Group and the Welfare Working Group before them, it fell into the too-hard basket. Exhorting government to do this job, the EAG itself gave no direction. Neither could it resist making sure that the work solution to child poverty was a substantial qualifier to any review:

There has been no assessment of the value of welfare benefits in real terms for several decades, nor of their relationship to tax credits such as in-work payments. These ought to be reviewed both from an income support perspective, and in terms of encouraging gainful parental employment that is effective in reducing child poverty and meeting children's developmental needs. (EAG, 2012a, p.41)

Conclusion

Against the criteria of cost-effectiveness, requirement to have an evidential basis, and account taken of the economic and fiscal context, and the declaration that 'Every child in New Zealand has the

right and should have the opportunity to grow up without experiencing severe or persistent material deprivation' (p.8), the EAG's specific recommendations on income support fall far short.

The proposals fail to give many poor children the significant income boost that is needed. The poverty relief achieved is expected to be seen largely in big, younger families, but the mechanism chosen is not cost-effective in terms of the policy objectives and the need to remember the fiscal constraints. The outcomes for Māori and Pasifika are not assessed. Getting value for money in a tight economic climate means taking a look at the evidential base of what is done currently, careful analysis of what is and what is not working, including all tax credits and paid parental leave, and making suggestions that will actually lift the 170,000 poorest children significantly above the 50% poverty line. Previous independent and detailed analysis, such as St John (2011), St John and Dale (2012) and St John and Craig (2004), were ignored.

The EAG cited material from Perry (2012) which suggested that a couple with two children on 50% of median household income would need an extra \$100 per week to be lifted to the 60% line. This gives some indication of the scale of redistribution needed. The EAG estimated that the implementation of their recommendations would cost around \$1.5–2 billion (EAG, 2012a, p.33), so a demonstrable significant alleviation of the hardship of our most vulnerable children

should at the very least have been the outcome. Instead, the recommendations of the EAG further entrench the relative poverty of the 170,000 poorest children, as did Working for Families, by not offering them a politically realistic and cost-effective solution, and by not addressing the human rights implications of continuing to deny them a significant child poverty alleviation measure, the IWTC.

The setting up of an independent panel of experts, at arm's length from the government, through the Office of the Children's Commissioner had the potential to make some real progress towards fixing the problem of child poverty. The EAG achieved a significant body of work and made a range of thoughtful recommendations in many areas. There are numerous political and other aspects that have not been explored here, such as who was chosen to be on the group and why, what contribution was made by each member to the whole, and how has the final report and its recommendations been received and what is the likelihood of them being enacted. Any exercise like this is enormously costly in time and energy for those involved, and this article salutes all the individuals who contributed so much. Virtually all members were unpaid, and the EAG budget was inadequate for the seriousness of the issues they were expected to address. It is also acknowledged that even perfect recommendations require the fertile ground of political receptivity for there to be real progress.

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