

# *Susan St John: Children still left behind despite \$4.5b spend*

**New Zealand Herald**, Tuesday July 08, 2008

Since 2005 the Government has poured an extra \$4.5 billion into Working for Families. Without that injection into the lower and middle deciles of the income distribution, measured child poverty would have continued to rise and there would have been unimaginable distress in communities up and down New Zealand.

While the spending on Working for Families was entirely justified and well overdue, it has been highly selective. It has reduced the proportion of children below the relative poverty line from 28 per cent to 22 per cent.

But it leaves about 220,000 children behind. These are largely the children whose parents do not meet the in-paid-work hours requirement and/or are on benefits.

Of these, about 150,000 live in families experiencing severe and significant hardship with nothing but a mean-spirited handout of a few dollars for food in sight.

These families miss out on at least \$60 a week for their children while cuts in their core benefits and hardship provision have largely offset any improvements from other increases provided through Working for Families.

With Orwellian subtlety, the Government has confused the public with name changes to family income assistance payments. Most people understood the old Family Benefit and then Family Support which was a weekly payment for children paid to the caregiver.

Now part of weekly family income assistance is called an "in-work tax credit", Family Support has been rechristened the "family tax credit" and a top-up called the "minimum family tax credit" is lumped in there as well.

The current recession is exposing the flaws. A caregiver with one child gets \$142 a week in total tax credits for the child if the household income is under \$35,000 and the required hours are worked.

If the earner loses his or her job, or work hours are cut, the caregiver not only suffers the loss of household earnings but also loses the in-work tax credit of \$60 for the child.

In the old days, Family Support would have risen as household incomes fell, providing a level of income security.

Now it is impossible to budget and the child misses out on a payment that is rightfully theirs.

Family income assistance is now supposed to both prevent child poverty and provide a work incentive. By having two goals it fails to achieve either.

The discrimination of the in-work tax credit not only causes and perpetuates material disadvantage for those excluded, but it cannot be justified by pointing to the higher "good" of making work the way out of poverty.

In fact, the work incentive aspect of the package is hard to fathom.

Treasury expected only about 2 per cent of sole parents to move off benefits. In two-parent families an actual reduction in work by the secondary earner was predicted.

Sole parents working the required 20 hours and going off the benefit may also need another state top-up called the minimum family tax credit, to survive. They can end up with more state assistance "in work" than they got on a part benefit.

But this kind of state assistance is apparently acceptable because it isn't called a benefit, rather a tax credit.

The in-work tax credit costs \$593 million a year. It is paid right up the income scale, even to parents on over \$100,000 with several children.

Clearly, those families don't need an incentive not to drop out of work and go on a benefit; it helps them with the costs of their children including allowing the secondary earner to stay home or reduce hours of work.

But if that family needs it for their children, why does someone struggling on under \$20,000 not need it for their children?

Australia does not have the flawed policy of treating children differently based on the source of their parent's income.

Such measures show a blatant disregard for New Zealand's obligations under international conventions and human rights legislation.

The Government has known since a Ministry of Social Development report in June 2007 that Working for Families had left too many in unacceptable poverty.

Now the situation has been made much worse by the unexpected price increases in fuel and food.

Instead of increasing the highly stigmatising, means-tested special needs grants for food, political parties need to agree to do two things.

First, give the \$60 to all low-income families. This would be a focused way of improving the child poverty figures and could be done immediately.

Second, instigate a proper review of the benefits system. Benefit levels must be improved and the allowable level of supplementary earnings must be lifted.

If the couple on \$35,000 lose work because of the recession or sickness and go on a benefit, they can earn only \$80 a week between them before tax and loss of benefit makes it not worthwhile. Today this is less than four hours each at the minimum wage.

Use of third tier means-tested supplements and high abatement of benefits against joint income at very low levels of earnings locks people into the poverty trap. It gives them no means of improving their situation unless they can immediately jump into full-time work.

We need a better system for the 21st century.

*\* The Child Poverty Action Group has a legal case before the Human Rights Review Tribunal challenging Working for Families discrimination. Final legal submissions in the case will be made in Wellington from July 14 to 18.*

\* Dr Susan St John is in the economics department of the University of Auckland Business School and is also economics spokes- woman for the Child Poverty Action Group.