

CHiLD POVERTY ACTION GROUP

Susan St John

Commentary on the Prime Minister's 2010 February Statement

As Tapu Misa noted in the NZ Herald (15th Feb), the victims of the global crisis are now apparently to blame for their own misery. Key states that many of them "lack the will or desire to work as hard for their living as their fellow New Zealanders" thus setting the scene for whatever hard-nosed policy the budget has in store.

Reminiscent of the welfare attacks of the early 1990s, there is a disturbing lack of empathy for the hardship endured by the people who cannot work or who can only work part-time while on a benefit. Many are sole parents already carrying a huge load of caregiving work, others suffer ill-health that makes them unsuited to full-time or even any work. Then there are the alarming numbers of young people who are now pounding at the doors of tertiary institutes as the job market fails to absorb their growing numbers.

Tapu Misa highlighted John Key's focuses on sole parents; always an easy target to generate smouldering resentment. He claims that if 100 of those on the DPB get back to work there could be gains to the taxpayer of \$10m over their lifetime.

That claim needs closer examination. The usual situation is the benefit provides short-term help and women come off the benefit because they re-partner or go back to paid work when their situation allows them to do so.

Consider the policy of forcing mothers back to into the workforce before they are ready, as that is the only way there can be saving over the status quo. Leaving aside the obvious lack of jobs and the question of who gets shunted out of the job market so that the 100 sole parents can get a job, how does Key get that \$10m figure?

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The current net cost of the DPB is \$14,144 and many are on it only short term. If the government heroically assumes that its new policy will save on average as much as 6.5 years of DPB for each of the 100 sole parents it moves into work, and allows for the tax paid on the earnings of the sole parents once they are 'in work' there is an apparent net saving of around +\$10 million. This assumes they work the required minimum of 20 hours a week, at the minimum wage. It does not however deduct the recovery from child support — many non-custodial parents fund part of the DPB for their ex-partners through their child support payments.

An IRD report shows that at least half of those who left the DPB between 2005 and 2007 had been working part-time while on the benefit. These sole parents were only required to increase their hours of work to 20 a week to qualify for the full Working for Families package.

If we assume the 100 who go back to work had been working 15 hours at the minimum wage while on the DPB, the cost to the government for each is reduced by the tax of \$2048 and loss of benefit \$1677 (-\$2.4 m). So now on the face of it, Government is saving only + \$7.6 million.

But did John Key forget that when the 100 go back to work, instead of the benefit, the government will have to pay the In Work Tax Credit of at least \$3000 a year. If each sole parent works the minimum of 20 hours at the minimum wage they will also qualify for \$176 a week or an annual \$9152 of the Minimum Family Tax Credit. The cost to the government of these extra Working for Families payments for the 100 sole-parents for 6.5 years is -\$7.9 m. Extra child care subsidies and expenditure on case management may be required as well. So, in fact, John Key's \$10m saving is a complete illusion.

Does it really matter that taxpayer subsidies are not for the DPB, but for the more politically acceptable tax credits and childcare? In the meantime these 100

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sole parents are not retrained but may be trapped in low paid jobs with no incentive what so ever to work more than 20 hours because every extra dollar earned cuts their Minimum Family Tax Credit by a dollar.

More significantly, there are already very strong incentives for sole parents to get off the DPB. These include dissatisfaction with a harsh lifestyle, loneliness, and loss of social status.

The figures show clearly that when the job conditions are favourable and unemployment is low as it was between 2004 and 2007, and there are huge tax credits for work, numbers on the benefit fall. When the jobs are not available as in 2009 benefit numbers rise very rapidly again, despite the work incentives, as the table shows.

The numbers on the DPB are now back to what they were before the Working for Families package in 2004. The good news is, ironically, that it is probably costing the government less than it cost to have these sole parents in the workforce.

Please John Key, recognise that 'make work pay' policies make work pay only by massive tax-funded subsidisation. They can have no impact at all when the jobs are not there or when sole parents can't work 20 hours a week in addition to responsibilities for their children. Relax a bit, and encourage sole parents to have extra earnings by raising the ridiculously low earnings cap of \$80. And please, please, acknowledge that sole parents' unpaid work is vital to the health of society.

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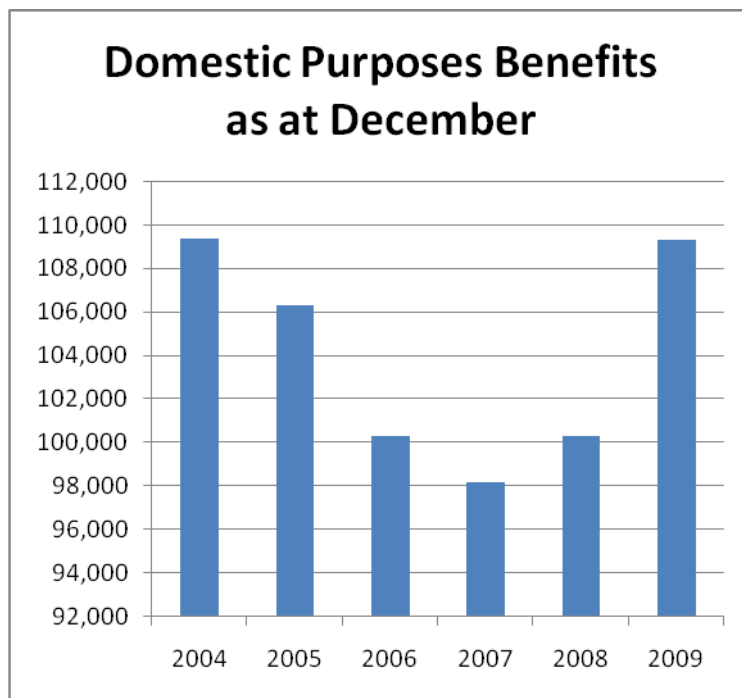
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Numbers on benefits

End of quarter	Unemployment Benefits	Domestic Purposes Benefits
December 2004	65,969	109,339
December 2005	51,426	106,302
December 2006	38,796	100,309
December 2007	22,748	98,154
December 2008	30,508	100,282
December 2009	66,328	109,289

Source MSD national fact sheets



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