

THE 2016 BUDGET

Address to the CPAG Breakfast
Ara Institute of Canterbury, 27 May 2016

Paul Dalziel
Professor of Economics, AERU Lincoln University

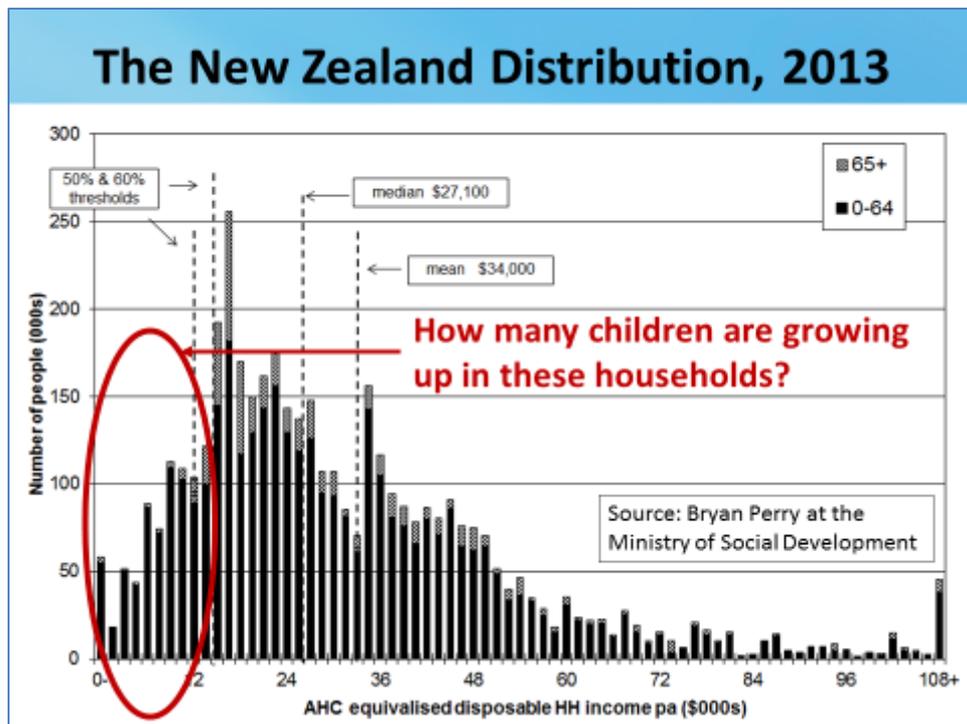
E ngā tāne, e ngā wāhine, e tau nei, tēnā koutou katoa.
Ka tino nui taku mihi o aroha ki a koutou i tēnei mōrena.
Kei te mihi ahau ki ngā taonga o Ngāi Tahu,
tāngata whenua o tēnei rohe.
Ka iti taku mōhio ki te reo Māori,
ēngari kei te mihi ahau ki tēnei taonga o ēnei motu.
Tēnā koutou, tēnā koutou, kia ora tātou katoa.

I want to begin my presentation by acknowledging the people of the Child Poverty Action Group. As many of you will know, CPAG was formed in 1994 out of deep concern for the rising level of poverty in New Zealand and its effects on children. I honour the commitment and work of so many people over so many years.

There has been some debate this year about what we mean by 'child poverty'. My starting point is the observation that one of the core values common across all societies is a desire that their children should flourish and discover their full potential. Based on that observation, child poverty occurs when children are unable to do this (to flourish and discover their full potential) because they are growing up in households who cannot access sufficient economic resources for this purpose.

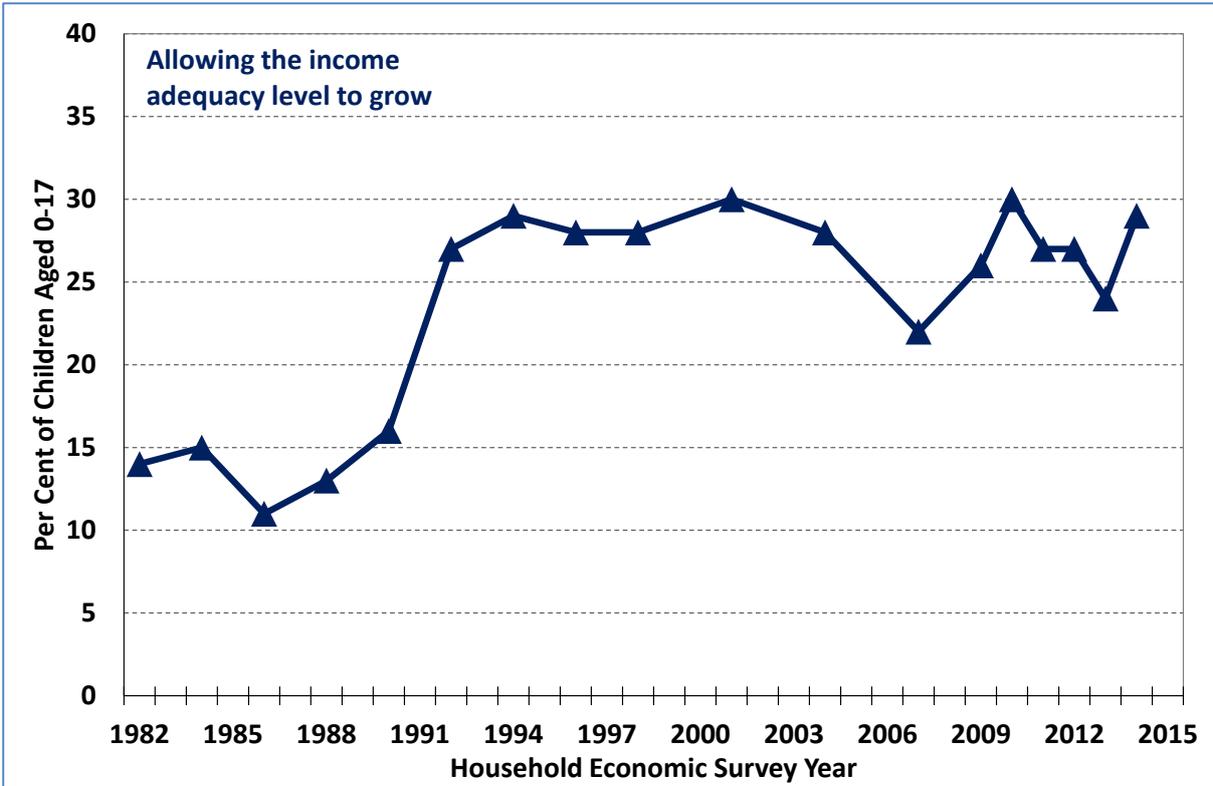
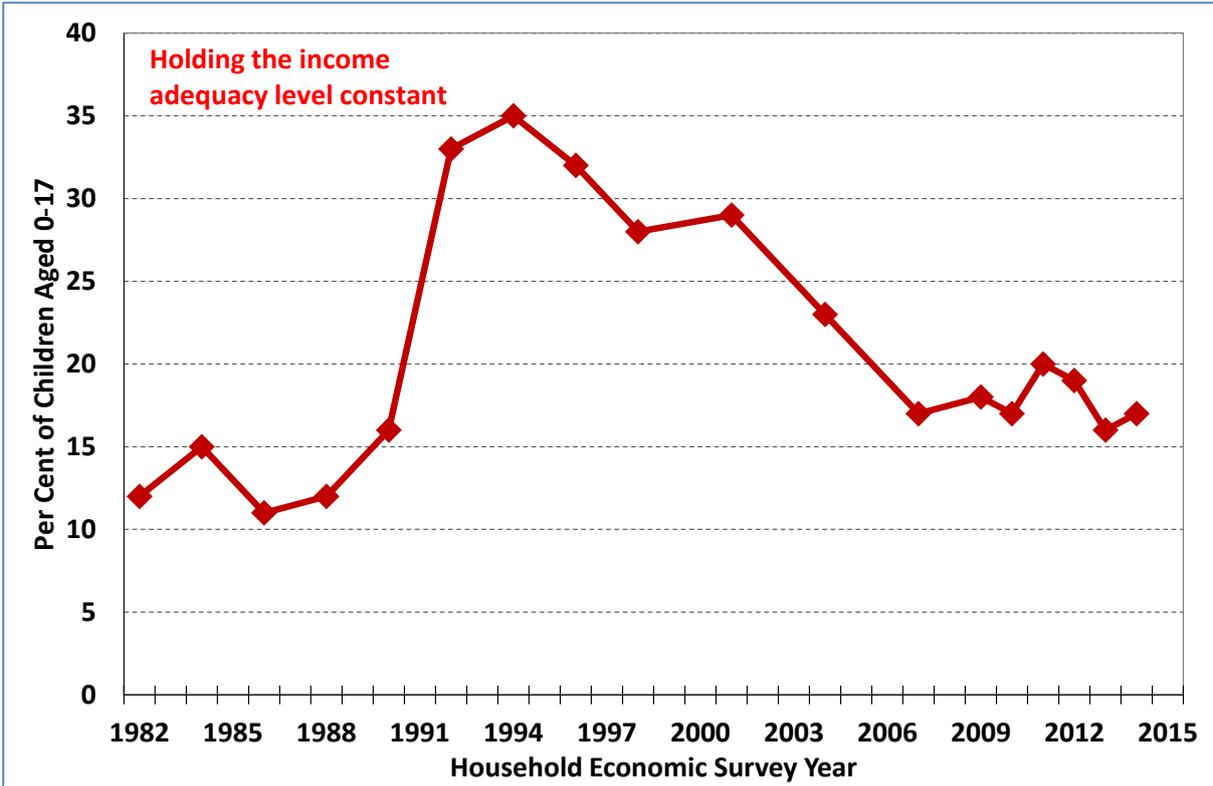
That definition is contested; some commentators start from the observation that one of the core values common across all societies is a desire that their children should have enough food and shelter to survive. They then define child poverty in similar words as mine: child poverty occurs when children are unable to do this (to survive) because they are growing up in households who cannot access sufficient economic resources for this purpose. I don't want to get caught up in a debate about words – use different nouns like social exclusion or lost opportunities if you like – but the key idea is that our vision for our children must be much wider than survival; we want households with children to have sufficient economic resources for their children to thrive and discover their full potential.

Note that it is not the children who are poor in this definition; it is the households in which they are growing up that are poor. So, what counts as sufficient resources? Again, the definition is contested, but a widely used standard internationally is the following: At least 60 per cent of median income after housing costs have been deducted, taking into account household size and composition. This standard is shown for New Zealand in the figure below:



The best data we have for measuring this begins in 1982. So let's start by taking as our standard of income adequacy, the figure of 60 per cent of median income *in 1982*, after housing costs have been deducted, taking into account household size and composition. Then, let's track what percentage of young people are in households with less than that fixed income standard (after allowing for inflation) over the following 32 years. This is shown in the graph below, again using data calculated by Bryan Perry at the Ministry of Social Development.

This shows that in the 1980s, child poverty was between 10 and 15 per cent. After the benefit cuts of 1991, the percentage jumped to 35 per cent. This, of course, is why CPAG was formed in 1994. There had been a catastrophe in the child poverty rate, driven by a deliberate policy change. On this measure, child poverty dropped through the 2000s, but was still higher than it had been in 1982. In more recent times, the figure has stabilised, above the level of the 1980s. I should say that this is a very unusual outcome. I haven't seen anywhere else where the percentage of people living in poverty using a fixed income standard has been higher after 30 years of economic growth.



That first graph was based on using a fixed level of income adequacy (allowing only for inflation), set in 1982. Of course, the economy has grown since 1982, and the median income has grown with it. Hence the standard should be allowed to increase over time, to reflect rising median incomes. This is because we are concerned with ‘flourishing’ and ‘discovering full potential’ of the children growing up in our society.

The second graph shows the time series of the percentage of children living in households with inadequate income, adjusting the income standard as the economy grows over time. It shows that child poverty jumped after the 1991 benefit cuts, and there has been no sustained improvement since. This is the child poverty scandal in New Zealand:

- Using the definition of income adequacy fixed for 1982, the percentage of children living in households with inadequate income was higher in 2014 than thirty years early in 1984.
- Allowing the definition of income adequacy to adjust for economic growth, the percentage of children living in households with inadequate income was twice as high in 2014 than in 1984.

We should ask ourselves, what happens when so many children are growing up in households with inadequate income? What happens at meal time (which should be family building time) when there is not enough food for everyone to be well-fed? What happens when children are growing in crowded houses that are cold and damp? The answer is that we end up with some of the problems that some of the measures announced in yesterday’s budget are trying to address:

- poor housing conditions;
- poor health experiences;
- poor education outcomes;
- poor crime statistics.

As Sir Michael Marmot says in his book *The Health Gap*, “the cause of the causes” is poverty. Yesterday’s budget does not address the cause of the causes. It offers some responses to some of the issues, but nothing to match the scale of the problem that has now persisted for 25 years (since the benefit cuts of 1991).

I therefore want to finish with a quote from one of the Budget background papers. It concerns the policy being developed to respond to vulnerable children:

“The investment will deliver the initial components of system-wide reforms to ensure children and young people grow up in loving and stable families and communities where they can be safe, strong, connected and able to flourish.”

The vision in that statement is shared by CPAG, but CPAG understands that it is not reforms of public services that will deliver this vision. Our economic policies are not empowering parents to access adequate security, food, shelter, education and healthcare; this is the issue that remains unexamined.

Kua mutu tāku korero mo tēnei rā.

That finishes my talk for today.

Tēnā koutou. Tēnā koutou. Kia ora tātou katoa.

That is you. That is you. May you and I, all of us together, enjoy wellbeing.