

BUDGETS, CHILD POVERTY AND HARD CHOICES

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OUTLINE

1. Introduction
2. Challenging times – globally and nationally
3. Assessing budgets – principles and goals
4. The Expert Advisory Group on Solutions to Child Poverty
5. Solutions to child poverty
6. Key policy issues
7. Conclusions

CHALLENGING TIMES

Globally:

1. Global financial crisis, sovereign debt issues, future of the Euro, high unemployment in many OECD countries...
2. Poverty, deprivation and inequality – the bottom billion, the Millennium Development Goals, falling short ...
3. Ecological crisis – exceeding bio-physical limits, climate change, loss of biodiversity, prospect of overshoot and collapse ...
4. Weak international institutions, lack of leadership by major powers, limited political will ...

CHALLENGING TIMES

Nationally:

1. The impact of the global financial crisis, substantial fiscal deficits since 2009, low growth, ratings downgrades ...
2. Many decades of relatively low productivity growth; increasing gap with Australia in terms of real per capita incomes ...
3. By OECD standards, we have relatively high levels of income inequality (and probably wealth inequality), with significant numbers of people (especially children) experiencing deprivation and hardship, and some in severe poverty ...
4. High international indebtedness, especially private debt ...
5. Major natural disasters – Canterbury earthquakes (\$30-40b), Nelson floods ...

ASSESSING BUDGETS - CRITERIA

- 1.** Thus, the 2012 budget occurs at a difficult time globally and nationally ...
- 2.** Annual budgets are important statements of economic policy – including goals, values and direction, but they are only part of the picture
- 3.** Question: How should we assess a budget?

ASSESSING BUDGETS - CRITERIA

Any assessment depends on:

1. The policy goals and principles that we consider important:
 - This is fundamentally a philosophical or moral issue rather than a technical issue
 - Ethical values are at the heart of the matter
2. The precise criteria we select, and
3. The weighting of these criteria

Thus, evaluations of budgets will differ depending on the philosophical framework and criteria we apply. All judgements are influenced by our presuppositions and values.

ASSESSING BUDGETS - CRITERIA

Various ethical and philosophical frameworks:

For instance, one could evaluate the 2012 budget against the Treasury's recent *Living Standards Framework (2011)*

- This focuses on the maintenance and development of our capital stocks (and also the flows and allocation of goods and services):
 - Human
 - Financial/physical
 - social
 - natural

I have not attempted such an exercise, but it would be worth exploring ...

ASSESSING BUDGETS - CRITERIA

Another option is to identify a set of broadly agreed goals and principles, and use these as a test. Such an approach might embrace principles across the following categories:

1. Responsible fiscal management
2. Environmental sustainability
3. Distributive justice or fairness
4. Other goals and considerations: e.g.
 - restorative justice (rehabilitation)
 - enhancing productivity and allocative efficiency
 - improving the quality and efficiency of, and access to, public services
 - enhancing resilience
 - rebuilding Christchurch, etc etc.

ASSESSING BUDGETS - CRITERIA

Principles of responsible fiscal management (Public Finance Act):

1. Ensuring prudent levels of total debt
2. Once prudent total debt levels are achieved, ensuring that, on average, over a reasonable period of time, total operating expenses do not exceed total operating revenues
3. Achieving and maintaining levels of total net worth that provide a buffer against factors that may impact adversely on total net worth in the future
4. Managing prudently the fiscal risks facing the Government
5. Pursuing policies that are consistent with a reasonable degree of predictability about the level and stability of tax rates for future years

2012 Budget: broadly consistent with these principles, but room for debate over how quickly we should seek a fiscal balance (or operating balance) given the cost of the ChCh rebuild and sluggish growth; also, failure to address the long-term fiscal costs of current pensions policy

ASSESSING BUDGETS - CRITERIA

Principles of environmental sustainability:

1. Maintain a constant per capita stock of natural capital
 - Limit renewable resource use to sustainable yield levels (e.g. fish stocks)
 - Deplete non-renewable resources only to the extent that investment is made in adequate substitutes (including renewable resources)
2. Maintain ecosystem resilience
3. Identify, and remain within, 'safe' biophysical limits (globally, regionally and locally) – this includes rates of biodiversity loss, atmospheric greenhouse gas concentrations, fresh water usage, etc.
4. The precautionary principle, etc.

NZ context: deteriorating fish stocks, more native species under threat, current climate change policy settings inconsistent with global challenge, deteriorating fresh water quality, etc.

2012 Budget: ??

- Need a stronger integration of economic policy and ecological concerns

ASSESSING BUDGETS - CRITERIA

Material principles of distributive justice:

1. Egalitarian principles

- Equality (before the law, treatment, access, opportunity, outcome, etc.)
- Satisfaction of basic needs (social rights)

2. Non-egalitarian principles (desert-based)

- Merit
- Contribution
- Effort

All relevant to some degree, but good grounds for giving priority to (1) over (2)

2012 Budget: ??

- A stronger societal commitment is required for satisfying basic human needs (food, health, housing, education, etc.)

OTHER GOALS

Examples:

1. Rebuild of Christchurch (significant government investment)
2. Rehabilitation of prisoners (some new initiatives)
3. Education (larger class sizes, reduced access to student allowances, higher student loan repayment rates)
4. Health (commitment to free primary health care for young children and higher taxes on tobacco, but increased prescription charges)
5. Science/innovation (some modest additional initiatives)
6. Social policy (continued implementation of cuts to working for families, welfare reform initiatives)

TURNING TO CHILD POVERTY ...

1. The Children's Commissioner (Dr Russell Wills) – establishment of Expert Advisory Group on Solutions to Child Poverty (March to December 2012; 13 members)
2. Terms of Reference:
 - Broad understanding of poverty
 - Advice sought on short-term measure to alleviate child poverty and a longer-term strategy (over many decades)
 - An Issues and Options paper by late August; final report by Christmas
3. Parallel process to Ministerial Committee on Poverty
4. Both initiatives recognize the child poverty is a significant issue in NZ and needs addressing (see tables)

TURNING TO CHILD POVERTY ...

Around 20% of NZ children live in poverty (i.e. below 60% of the median household income after housing costs):

- This means over 200,000 children live in poverty
- The rates for various ethnic groups are much higher – Maori children (about 30%), Pasifika children (about 40%), the children of refugees
- Many children experience recurrent episodes of poverty
- Many children experience persistent and/or severe poverty

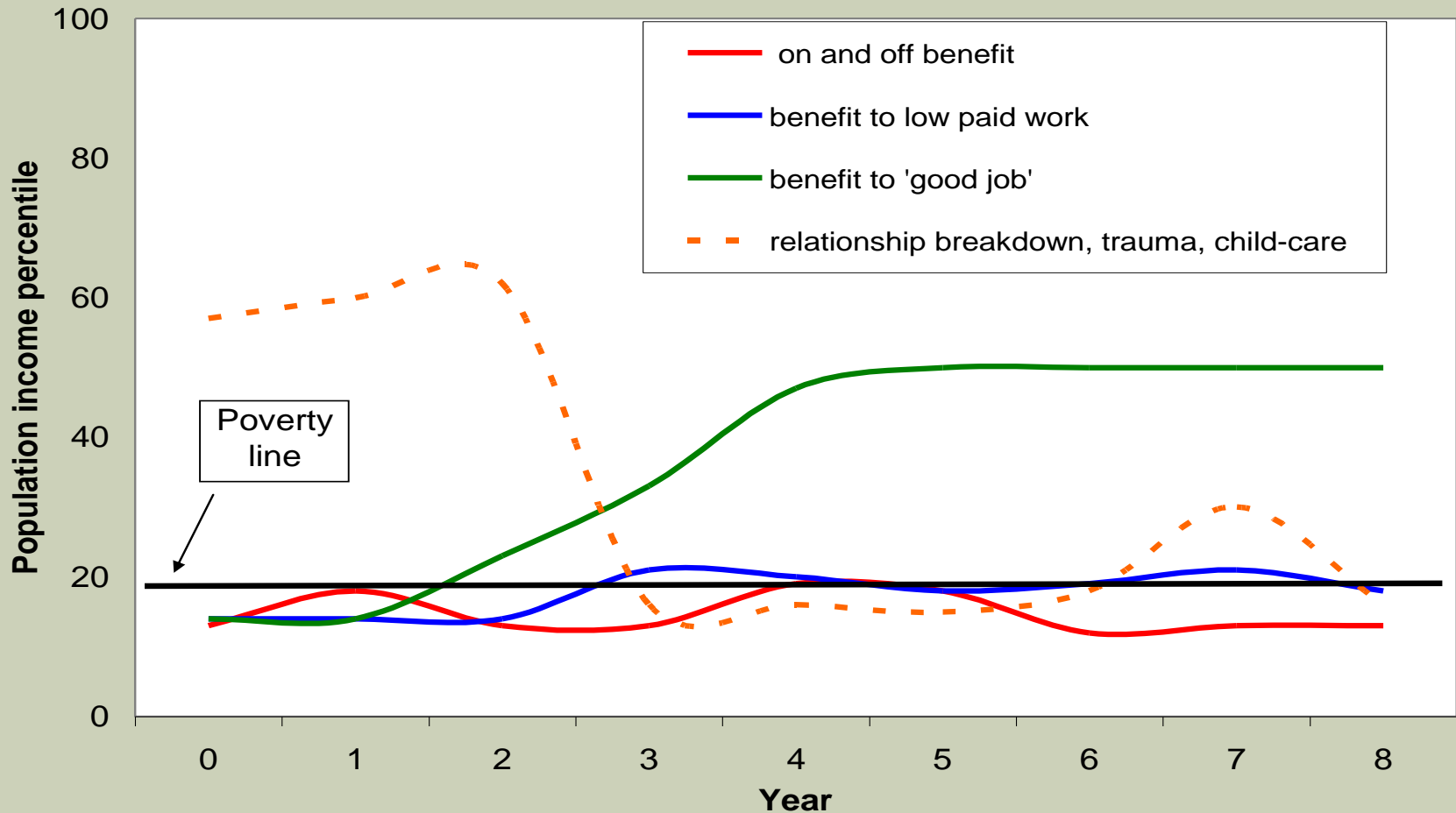
Poverty levels (income based) – around 2010

COUNTRY	POPULATION		CHILDREN		ADULTS 65+	
	50%	60%	50%	60%	50%	60%
OECD/EU average	11	16	12.3	20	15.1	18
New Zealand – relative	11.0	18	12.2	20	23.5	36
-CV (1993 base)		8.2		12.9		3.9
Australia	14.6	20	14.0	22	39.2	45
UK	11.3	17	13.2	21	12.2	22
USA	17.3	24	21.6	29	22.2	
Canada	11.4	20	14.8	25	4.9	
Ireland	9.8	15	11.0	19	13.4	17
Germany	8.9	16	8.3	15	10.3	15
Sweden	8.4	13	7.0	13	9.9	18
Netherlands	7.2	11	9.6	15	1.7	8
Spain	13.7	20	17.2	24	20.6	25
Italy	11.4	18	15.3	24	8.9	20
Czech	5.4	9	8.8	13	3.6	7

DEPRIVATION RATES: 3+ ENFORCED LACKS, USING 9 ITEM EU INDEX (%)

	Children 0-17	Aged 65+	Total Population
New Zealand	18	3	13
UK	15	5	10
Ireland	14	4	11
Germany	13	7	13
Sweden	7	3	6
Netherlands	6	3	6
Spain	9	11	11
Italy	18	14	14
Czech	20	17	20

Which trajectory?



SOLUTIONS TO CHILD POVERTY

Some positives:

1. Large academic literature; many governmental and inter-governmental reports, comprehensive strategies, plans and programmes – many lessons, much to draw on:
 - Growing understanding of the causes, dynamics and impacts of poverty
 - Reasonable understanding of what works to reduce poverty, what doesn't work and what governments have only limited control over (e.g. family structures)
2. NZ already has a good suite of poverty measures (Perry, MSD) – income-based, material deprivation and other measures; but need to systemize and expand these, and increase their status:
 - Need fixed-line (absolute) and moving-line (relative) measures
 - Need a measure of poverty severity (based on income and deprivation measures)
 - Need a measure of poverty persistence (for which we need a new data source)
 - Need medium-term and long-term poverty reduction targets; the latter should be ambitious
 - Need political accountability for outcomes

SOLUTIONS TO CHILD POVERTY

3. We know that the level of child poverty can be reduced by government policy:

- Many examples – Ireland, Nordic countries, UK, etc.
- WFF reduced child poverty, both in relative and absolute terms

4. We know that reducing child poverty makes sense ethically:

- Benefits for the children and their families (e.g. better health outcomes, educational achievement, employment prospects, life-time incomes, etc.)
- Wider social and economic benefits (e.g. lower crime, reduced health costs, improved economic performance, etc.). Current levels of child poverty reduce GDP by around 2-4%.

SOLUTIONS TO CHILD POVERTY

And we know what works:

- 1. A well functioning economy with low unemployment**
- 2. A mix of policy instruments and concerted effort over time**
 - Increasing participation in work and making work pay (but policy mix important)
 - Adequate income support for those unable to work and low-income families (but policy mix important)
 - Increase support for larger families and those with young children
 - Enhance early intervention programmes
 - Improve ECE, childcare, educational performance, etc.
 - Improve access to primary health care
 - Proportional universalism, with cascading service model (more intensive and coordinated support for high-risk families, case management, etc.)

SOLUTIONS TO CHILD POVERTY

But various problems:

1. We are dealing with a 'wicked' problem – we can reduce child poverty but not eliminate it
2. Distinctive aspects of child poverty in NZ – magnitude, dynamics, persistence, ethnic dimensions, labour market characteristics, high imprisonment rates, high residential mobility, etc. – implications for policy
3. Most policies cost money, some are very costly, and there are real fiscal limits and hard policy choices
4. The cost-effectiveness of initiatives is not always clear; we also need to consider the co-benefits and costs of not acting
5. Most policies involve conflicting values and entail trade-offs (e.g. paternalism, coercion, shifting resources, inter-generational transfers, etc.)

SOME KEY POLICY ISSUES

1. The level of ambition– by how much should we seek to reduce child poverty, at what cost, and over what timeframe?
2. What is the best mix of income support and in-kind assistance?
3. Where should we focus our efforts? (e.g. young children, those in persistent and severe poverty)
4. How should we pay for the extra investment in children that will be required?
5. How do we build multiparty support for durable, cost-effective measures to reduce child poverty?

CONCLUSIONS

- 1.** Annual budgets are important economic and political documents, but only part of the story
- 2.** Any evaluation will reflect the values of the evaluator ...
- 3.** There is a strong case for giving greater emphasis to the goals of environmental sustainable and distributive justice
- 4.** Addressing child poverty in NZ is a critical moral imperative, but poses some hard policy choices

SEVERITY OF POVERTY

UK evidence (Smith and Middleton, 2007)

- 1.** Four categories: no experience of poverty; brief one-off periods; recurrent episodes (churning); persistent (many years)
- 2.** Only a small % of children spend lengthy periods in poverty, but many remain only just above the poverty line
- 3.** Persistent poverty most common amongst:
 - Families with young children
 - Families with many children
 - Single parent households
 - Non-working households