CHILD POVERTY ACTION GROUP INC.

Newsletter
October 2003

PO Box 56 150 Dominion Road
Admin email: janetmcallister@slingshot.co.nz
Website: www.cpag.org.nz

Welcome to the October CPAG newsletter – kia ora koutou. It's been six months since our last newsletter in April and we apologise for the delay – as you can see below, we've been busy! We have two backgrounders in this issue: one by Susan St John, comparing the Australian family support system with New Zealand's, and one by Steve Poletti, in answer to a piece by Don Brash that argued that New Zealand's top income tax rate is too high. As well as the activities highlighted below, over winter CPAG also made submissions on the Families Commission Bill and the Care of Children Bill; attended the QPEC conference on education, the conference of the NZ Association of Child and Family Support and Community Services, and the Problem Gambling Foundation Conference; and set up sub-committees to look at nutrition, student loans and Child Support legislation. Our on-going research includes a small study on the difficulty low income families have in accessing medical specialists and a larger study on low-income family debt. Thank you for your interest and support – it is most appreciated - and we hope you enjoyed your Labour Day!

Housing Monograph Launch

CPAG's housing monograph by Alan Johnson, entitled *Room for Improvement* was a major undertaking and was launched at the Mangere People's Centre on Sunday September 14. Speakers included community workers Sister Anne Hurley and Joanna Fuimaono, Rev Mua Strickson-Pua who performed a rap poem, and Alan himself. The main points of the 80-page document are:

- the Accommodation Supplement subsidises landlords instead of benefiting tenants,
- some creative thinking is required to overcome this problem – investing in community housing trusts is one idea,
- Housing New Zealand has to put more money into building new houses rather than merely buying existing stock.

The monograph was well covered by the media, including TV One News, National Radio and the NZ Herald. The monograph is available from the CPAG website, or if you'd like a hard copy for $12, email or write to the address on our letterhead above.

Child Tax Credit and the Human Rights Commission

It's been a year since CPAG filed a complaint to the HRC concerning the Child Tax Credit, which is not available to all low income families, but only to those who do not receive an income-tested benefit. This means that if a caregiver is on a widow's, sickness, or unemployment benefit, a student allowance, superannuation, or ACC for more than three months, then they are not eligible. CPAG believes that this distinction of where parents get their income from (i.e paid work or a government benefit) is discriminatory.

The Crown Law Office, acting on behalf of the IRD, took nine months to reply to our complaint and finally argued that because beneficiaries already receive money from the government, the Child Tax Credit isn't discriminatory. CPAG is deeply unimpressed with this argument and had a meeting with the HRC in August to find out what our options are from here – the HRC might take the case to the Human Rights Tribunal, or we could take it ourselves. The Tribunal has the authority to issue a declaration of inconsistency if it finds that the Child Tax Credit is discriminatory and the Minister concerned would have to table a response to that. We have another meeting with the HRC scheduled soon.

Students Against Child Poverty

Since July, a small group of students at the University of Auckland have been meeting with CPAG to discuss ways in which they could work towards similar goals as CPAG. Future activities of the group could include a poster/ postcard/ petition campaign around campus, and going out to speak at school assemblies. We'd like to see similar groups start on other campuses as well.

CPAG has also been exploring ideas for projects on which it could spend last year's $70,000 anonymous donation. Watch this space…

Backgrounder 23: Aussies win, hands down
by Susan St John (published in the Independent 24th September 2003)

Why can New Zealanders not see the importance of adequate tax-based and universal child benefits? Other countries rightly view financial support for families with children as fundamental to preventing, and dealing with, child and family poverty.

The Australian system, for example, is far simpler, more generous and humane than ours.

All aspects are regularly adjusted for inflation, for a start. The Australian family assistance website shows frequently updated figures for their family payments while New Zealand's levels of family assistance remain static.

Australian parents can earn $A31,755 before their family tax benefit begins to reduce; here family support starts to reduce at an income level of $20,000. A one-child family quickly becomes entitled to nothing at all.

Not only does abatement start at a much higher level in Australia, but the family tax benefit stops reducing once it has fallen to $A21 per child per week. It does not reduce further until parents have a joint income of $A82,000 for a one-child family.

In families with more than one child, $A3,285 per additional child is added to the joint-income limit. All but the top 6% children get this quasi-universal payment.

In contrast, family support in New Zealand reduces at $20,000pa, no matter how many children in the family, and there is no universal component at all.

The Australians also offer another clever package, family tax benefit B, giving up to $A56 a week assistance to single-income families, including sole parents with a child under the age of five.
For children aged between five and 18, the maximum is $A39 per week per child. For sole parents, the tax benefit is paid in full, regardless of income. In two parent families, the primary earner's income is not taken into account. The secondary earner, usually the mother, still gets some family tax benefit B if her income is below $A11,559 a year and the youngest child is under five; or $A8,614 a year if the youngest child is between five and 18.

There is nothing as far-sighted as this in the New Zealand system. All assistance is tested against joint parental income and sole parents with any benefit income at all get less family assistance than those at the same income level who are not on a benefit.

In the past 15 years, New Zealand family assistance has become progressively more miserable. It is easy for this to happen with a system that is not automatically adjusted for inflation.

Families get caught two ways: The purchasing power of the payments for children reduces relentlessly, even when inflation is relatively low. The impact of neglect has been substantial. For example, family support for the one-child family should now be $74 a week instead of a $47 a week, to maintain purchasing power.

And the level of joint family income from which the payment starts to reduce is also fixed and means that, as wages increase with inflation, more of the child payment is lost. The threshold for abatement is now so low that many hard-pressed working families are entitled to very little family support at all.

New Zealand also punishes children for the origin of their parents' income. This came about from 1996, when the vital principle that all children should be treated the same was abandoned with the introduction of the child tax credit at $15 per week per child. Children who qualified had a $20-per-week increase in their family support, helping to restore some of the lost spending power.

But around 300,000 of the poorest children missed out and got only a $5 increase. They were unlucky enough to have had a parent on a sickness, invalid or unemployment benefit, ACC, student allowance, or NZ Superannuation.

Over and above this discrimination, the complexity of the child tax credit helps reinforce an ethnic bias, especially where parents fall in and out of the benefit system over the year and do not claim entitlements.

Over the past seven years, these poorest families have sacrificed around $2 billion in lost payments due to this policy. While not politically fashionable to make the link, it is hard not to conclude that their sacrifice contributes significantly to the current Budget surpluses flowing into the New Zealand Super Fund.

Just as is the case in Australia, Britain has also made child tax credits the same for all children. These tax credits, along with the universal child benefit, are regularly adjusted for inflation.

Why is New Zealand such a laggard? Nothing has been done since the 1996 Budget, apart from a tiny crumb of a marginal change in the threshold for abatement of family support in the 2003 budget. This gave, at most, $1 a week for some children in particular income ranges.

In the light of increasing concern about levels of child poverty in New Zealand and its alarming consequences, this lack of action is unfathomable. Families have been told to wait for the 2004 Budget, when they will get a boost to their family payments if the surpluses are large enough.

We must carefully scrutinise this package to make sure it is a good one, but it will offer only a catch-up and will not compensate for the years of neglect. In the meantime, Australia wins on this one hands down.

Backgrounder 24: Tax cuts don't make sense
by Stephen Poletti

In a recent newsletter Don Brash, National's finance spokesman, expounds on taxation.

"The reality is that almost all New Zealanders have been hit by increased taxes since this government came to power in 1999," Brash writes, before proposing a $2billion tax package - cutting company taxes and the top marginal rate. Brash believes that the tax system already protects low-income families, and that tax cuts would give incentives for New Zealanders to "grow their business, invest, take entrepreneurial risks and so on". The pay off, writes Brash, would be increased economic growth "say 0.5% a year."

Brash quotes selective examples leaving the reader with the impression that the overall tax take has increased. In fact, it has fallen in relative terms. Between 1996 and 1999 the tax take averaged 32.4% of GDP, dropping to 31.6% of GDP in 2000-2002. Spending has fallen further, as successive governments have not adequately adjusted assistance for low income families as prices have increased.

As a result in New Zealand, a society that has long believed in a fair go for all, children are increasingly dying in hospitals from diseases of poverty. Many more will be crippled by such diseases and be incapable of working. An even larger number will suffer from chronic illness. Many children will go hungry, have their schooling disrupted and live in stressful homes. These children are not getting a chance to develop and contribute to society.

In 1988, according to the Ministry of Social Development, 12.5% of children lived in families with income after housing costs are deducted falling below the poverty line - defined as 60% of the median. In 1998 the comparable figure was 27.5% - an extraordinary increase in poverty in just

10 years. Between 1998 and 2001 the number of children living in families with income below the poverty line increased further - to 29.1%.

This increase in poverty has been accompanied by a dramatic increase in third-world diseases. The third most common admission to Auckland Starship and South Auckland's Kidz First hospitals is cellulitis, a disease linked to overcrowding and poverty which can lead to limb amputations and death. As a contrast, in Australian hospitals, children with cellulitis don't even rate among the top 20 admissions.

If we wish to live in a society where all children are valued then a *more* progressive tax system is needed, combined with strategies to ensure that families living in poverty receive more income. Many families find themselves in a poverty trap. Extra income means less child support and other welfare assistance as well as higher tax payments. The result can be extremely high effective marginal tax rates – well over 70%. The present tax/benefit system leaves many families with inadequate support. The first question that Don Brash needs to address is how the tax system might ensure that all families have enough to live on.

A universal child benefit set at a high level would make a huge difference to poor families and mean the effective marginal tax rates would be lower creating extra incentives for work. In the United Kingdom where the government's strategy is to reduce poverty, a universal child benefit exists – the equivalent of $ NZ 8 a week for the first child.

Don Brash argues that his strategy of tax cuts delivers growth - "say 0.5% a year" for his $2 billion worth of tax cuts. He believes that the "benefits to all, whether low income or high, would be substantial very quickly." Brash must have plucked out of thin air his figure of 0.5% a year increase in the GDP growth rate, which he claims would result from decreasing the top marginal tax rate and the company tax. He is in any case being overly modest when he suggests that it is a "relatively small amount". The 0.5 % increase in GDP growth rate that he predicts is dramatic.

A recent comprehensive review of the empirical evidence on taxation and growth by Gareth Myles finds that "although there are some disagreements, the picture that emerges is that the effect of taxation [on growth], if there is any at all, is relatively minor…As far as policy is concerned the conclusion is reassuring since it removes the need to be overly concerned about growth effects when tax reforms are being planned" In other words, governments who plan more progressive taxation aren't undoing their economies.

If Brash is interested in generating growth then it would seem sensible to examine the known robust links. He could start by reading Jonathon Temple's recent survey, in which Temple writes "there are significant correlations between growth and investment…. the social return to increased R&D spending is high" and that "government spending on infrastructure is beneficial [to growth rates]." Temple concludes that "somewhat unusually for growth literature, studies have tended to concur in finding a negative effect of high inequality on subsequent growth." Inequality has increased dramatically in New Zealand over the last fifteen years. Cutting tax rates for the rich as Brash wants to do would only widen the gap further and could have the opposite effect from what he is ostensibly aiming for.

Given the weight of evidence cited above Brash must be proposing cutting the tax rates for other reasons. In fact he gives the impression that it's just not fair that rich people should pay more tax. It's a position fair-minded New Zealanders should find deeply disturbing.

(Sources: Gareth Myles, "Taxation and Growth, in *the Journal of Fiscal Studies* , 2000, vol. 21, p141; Jonathon Temple, "The New Growth Evidence", in Journal of Economic Literature, 1999, Vol 37 p. 112)