Improving policies for families and children
NZ Treasury seminar
22nd August 2016

Hon A/Prof Susan St John, University of Auckland
Economics spokesperson, Child Poverty Action Group
My involvement in family income issues

• Early 1980s: work for NZ committee for children
• Royal Commission social policy 1987
• 1990 CPAG UK
• **1991 the mother of all budgets**
• 1994 CPAG NZ
• Management committee 22 years
• 17 post budget breakfasts, 10yrs HR case
• Multiple CPAG publications, submissions, articles, talks, lectures etc. [website](#)
Fragility of the policy making process

As a general rule, the more people facing higher effective marginal tax rates over longer ranges of potential income, the greater the costs to society and the greater the probable loss of output... (The New Zealand Treasury, 1990, p. 110)

Treasury identified high levels of benefits as a major factor preventing a more gradual abatement system.

- Benefits would be cut significantly and the Change Team on Targeting Social Assistance design a new ‘integrated’ system of targeted social assistance.
- 1991 Family accounts
- Couldn’t make it work
- Left with welfare mess- increased poverty & high abatements
TOWARD 2000: an economic odyssey

Concluding our series of articles in which leading economists look at where we should be in the year 2000 and how we should get there, Susan St John hopes economic debate about alternatives becomes more open.

Omens of further social stress

N the last seven years national income has stagnated while its distribution has become significantly less equal.

Tax and benefit cuts and user charges have reduced the full-time employment of those on benefits, the healthy, the sick, the childless couples, and those with wealth others with few assets.

We now have children who go to school hungry, diseases that were once treated by the GP, and even in some cases, by the community health service.

The Maori and Pacific Islander hasn't been disproportionately affected. A hint of a problem can be inferred from the 1991 census figures which show that in these groups, 40 per cent of children between 20 and 60 are not working.

There has been a marked contraction of traditional full-time, well-paid jobs and an expansion of part-time, poorly paid, casual and self-employment.

The next seven years, technological change is likely to continue to alter the nature of production and labour market opportunities.

As a result, the proportion of national income paid out as wages is likely to continue to decline at the same time as the ownership of productive assets becomes more concentrated.

By the year 2000 we may need to abandon the shibboleth that hard work and savings should be the basis of distribution. The fundamental challenge will be to find ways of redistributing non-labour income so as to maintain demand and prevent poverty and alienation.

It is extremely important that we do not continue to undermine the export sector and the domestic base with a single-minded focus on balancing the budget and reducing inflation below 2 per cent. If we do, we can expect society to become more divided, more violent and more unequal.

Lester Thurow remarked recently that New Zealand and Britain may be the last two countries left in the world playing laissez faire economics.

Following the changed philosophy in the United States, macroeconomic policies may become more moderate and pragmatic, even if so much of the damage of the past few years will be irreversible.

Moreover, there are still demands from the business Roundtable and others for tax cuts and other social provision such as tertiary education so as to prepare for new opportunities.

It is hoped that we have learned something from the counterproductive 1990 and 1991 tax cuts and that economic debate about alternatives becomes much more open.

It is also to be hoped that we develop a more sophisticated view of the role that government intervention can play to enhance economic development. By the year 2000, we should be making collective investment in the social and physical infrastructure needed for the retirement of the baby boom generation.

The recent emphasis on self-provision and the sharp shift in favour of targeted social provision of all kinds holds portents of further social stress. Again, the effects will not be easily reversed even if policy is moderated in the next few years.

PEOPLE who must subsist for longer periods on inadequate benefits are forced to run down their assets and accumulate debt.

Even the lucky ones who eventually find employment will find restoring financial health a slow and painful business.

This may become most obvious in the case of those who face early retirement through redundancy and must fall back on the support of the income-tested 55-plus benefit.

At $218 a week for an employed person, this is a pittance, especially for those in poor health or without debt-free housing.

The 55-plus benefit traps people mercilessly; the only escape is an elusive full-time job. Part-time income is spread to effectively confounded through the tax and social welfare system.

By the year 2000, these people may come into official retirement in penury. For them, even though the state pension is paid at a margin above the 55-plus benefit, it may be too late to alleviate the damage because their assets will be gone.

If we wish to avoid widespread marginalisation of older people in the future perhaps we should place less emphasis on the virtues of private provision and return to a commitment to the principle of income adequacy for all.

If nothing changes by the year 2000, many more people other than beneficiaries will experience the bizarre, cumulative effects of targeting.

Most of those coming into the workforce in the year 2000 will do so after tertiary training which is now a necessity, not a luxury. Many will have large student debts to repay.

The top of current PAYE rates this will produce effective marginal tax rates of either 38 per cent or 43 per cent.

OTHER targeted social provision markedly increases these rates, especially for those with children. Abatement of family support alone will increase the marginal tax rate to 36 per cent, 68 per cent or 73 per cent on top of childcare subsidies and accommodation supplement.

The “interim targeting regime” is replaced by something related more sensitively to family income as we have been promised.

Pity those who divorce, remarry and begin a new family. Child support payments are also income-related and could mean another loss of up to 30 cents for each additional earned dollar.

When children enter tertiary institutions, student allowances reduce at 25 cents in the dollar against parental income, with cumulative effects when there is more than one student.

It is easy to demonstrate that some families under current policy directions actually lose disposable income as their gross income increases.

Nevertheless the direction of policy continues to emphasise targeting. It does not appear to have been fully appreciated that this zealous approach creates very high tax rates over long income ranges.

The inevitable disincentives to work and save, the Maori, the Maori, the high administrative costs and the intrusion do not auger well for an efficiently functioning economy next century.

Just as early in the 1980s when we had a tax system that was widely abused as more and more high and middle-income people were affected by high marginal tax rates on personal income, in the first quarter we are heading to an even bigger problem from the perverse incentives of high and arbitrary targeted tax rates on low and middle-income recipients.

These effects are the price that we have paid to maintain the low marginal tax rates of 23 per cent for the well-off.

We have no capital gains tax and no death duties, so there are few levers in place to prevent further widening of the income distribution.

Such policies also leave us ill-equipped to moderate another share market crash. The travel results described above will not be easy or necessarily equitable in the short run. A commission with at least the resources of the recent Todd Task Force on Private Provision for Retirement is needed as a lead.
Tax and benefit cuts and user pays policies have favoured those in full-time employment over those on benefits, the healthy over the sick, the childless over families, and those with wealth over those with few assets.

We now have children who go to school hungry, diseases that are untreated, charities that are over-stretched, and even tertiary institutions setting up foodbanks.
Just as early in the 1980s when we had a tax system that was widely abused as more and more high and middle-income people were affected by high marginal tax rates on personal income, in the early years of next century we are heading to an even bigger problem from the perverse incentives of high and arbitrary marginal tax rates on low and middle-income recipients.

These effects are the price that we have paid to maintain the low marginal tax rates of 33 per cent for the well-off.
We have no capital gains tax and now no death duties, so there are few levers in place to prevent further widening of the income and wealth distribution. Such policies also leave us ill-equipped to moderate another share market and asset boom.

So where are we 25 years on from the mother of all budgets?
Auckland Painful images of growing inequality
New Zealand's most shameful secret: 'We have normalised child poverty'

- Unicef and charities urge New Zealand to act on child poverty

Minister dismisses Guardian report highlighting issue as ‘sensationalist’ from a paper that ‘supports Jeremy Corbyn’
Auckland City Mission - barometer of distress

Food Parcel Demand Year to Year


Values: 2000, 4000, 6000, 8000, 10000, 12000, 14000, 16000
"I knew there would be a queue but I didn't think there would be people sleeping here since 1am,".
Emma-Lita Bourne (2 years) died in Aug 2014

Coroner:
Cold, damp house contributed to her death from pneumonia

Source: Professor Innes Asher, CPAG
Bronchiectasis (scarred dilated airways)

- Caused by repeated or severe pneumonia
- In NZ is 8-9 times commoner than UK and Finland

![Normal lungs with bronchiectasis on bottom right](Image)

![Bronchiectasis all areas of the lungs](Image)
Bronchiectasis sputum

One cough produces a blob of sputum (pus-like phlegm)

Child produces a cup of sputum over one day

$1 coin
Bronchiectasis (scarred dilated airways)

Child with bronchiectasis

May die as a teenager or young adult or too sick to work
On our watch.....................

A sign of insanity is continuing to do the same things and expecting a different result
What does CPAG try to do?

- Produce credible research
- Use academics to raise profile of social justice issues
- Contribute to public debate and political pressure for change
- Sometimes activist eg Hikoi for housing– Park-up for homes
- Argue for ‘better’ policies that puts children’s wellbeing at the centre- human rights approach
Best interests of the child at the centre

- Work friendly hours.
- Part-time work.
- School holiday assistance.
- All newborns adequately supported. Paid parental leave based on the needs of children.
- All children have adequate resources of food and clothing.
- All poor children given the same weekly assistance based on h/h income.
- Child impact assessment of all legislation.

part-time work for sole parents encouraged, low abatement
From 1990s policy focus has put paid work at centre

“A relentless focus on paid work”

Children's rights and needs - invisible in legislation.

Paid work only solution to child poverty.

Paid work unfriendly hours. Child unfriendly local environment.

New baby support for working parents only, child payments reflect work of parents.

Work related child tax credits exclude many poor children.

Sanctions for not working. Low benefits, high abatement to encourage full-time work.
CPAG 2016 agenda

- Housing campaign
- Budget breakfasts in 7 locations
- Facebook and twitter
- **Submissions** eg social security rewrite, paid parental leave, CYPF review, healthy homes
- Kathryn’s story
- Laybying our future
- Fix Working for Families campaign
  - Six parts – currently on phase 2
Where did CPAG interest in Kathryn’s story come from?

The complexities of ‘relationship’ in the welfare system and the consequences for children

See Report here
Kathryn’s Story

More information see here

CPAG Wellington Seminar
Child Poverty and Social Justice: Not all are equal in NZ

When
Wednesday September 21, 2016
from 5:30 PM to 7:00 PM NZST
Add to Calendar

Where
Mezzanine MZ 05 and 06,
Rutherford House
Victoria University of Wellington
Pipitea Campus,
Wellington
New Zealand

CPAG invites you to attend a Wellington Seminar on Child Poverty and Social Justice on 21 September.
The evening will provide an opportunity to discuss benefit fraud and the effects on families and children in poverty. Including a presentation about Kathryn’s story, the story of a chronically-ill beneficiary mother convicted and jailed for benefit fraud despite maintaining her innocence.

Followed by research findings around different treatments in the justice system between tax evasion and welfare fraud.
The Child Poverty Action Group is calling on the Government to start charging interest on student loans saying it would make life easier for students.
Why do we need Working for Families?

- Society must support the young and the old
- We do ‘old’ very well!
- We don’t say- “NZ Superannuation is a subsidy to employers”
- Working for Families is an investment by society in its future.
• Benefits **are for adults.**  (established 2005)

• The April 1 2016 increase of $25 to core benefits only for those with children muddies the waters by pretending to be for children.

• **All benefits** needed to be increased
  “Increasing main (basic) benefits and indexing them to median wages would reduce poverty across all beneficiary classes”  OECD 2015
• Benefits are for adults.

• Working for Families is for children.
## Complexity of WFF

<table>
<thead>
<tr>
<th>Type of Credit</th>
<th>Guaranteed Income</th>
<th>EMTR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Parental Tax Credit</td>
<td></td>
<td></td>
</tr>
<tr>
<td>In Work Tax Credit</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Family Tax Credit</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Minimum Family Tax Credit</td>
<td>$23,764</td>
<td>100%</td>
</tr>
</tbody>
</table>

WFF abates from $36,350 at 22.5%
Components of Working for Families Tax Credits by Cost, 2016

- **Family Tax Credit**: $1,837m (76%)
- **In-work Tax Credit**: $530m (22%)
- **Minimum Family Tax Credit**: $16m (1%)
- **Parental Tax Credit**: $31m (1%)

Total WFF: $2.4 billion
10 years after IWTC came in: 2016

The In Work Tax Credit rises to $72.50 a week

Just an inflation catch-up

A lot for the poorest children to miss out on

Only work-based WFF increases

<table>
<thead>
<tr>
<th>WFF</th>
<th>2016</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>FTC</td>
<td>1837m</td>
<td>1831m</td>
</tr>
<tr>
<td>Other</td>
<td>577m</td>
<td>639m</td>
</tr>
</tbody>
</table>
So what is wrong with WFF?
Working for Families evaluation?

Purposes
1. To incentivise work. Who worked more because of it and who worked less?

Working for Families changes: The effect on labour supply in New Zealand  Treasury 2014
“the introduction of the new policy increases labour supply of sole parents by an average of 0.62 hours per week, but decreases labour supply of married men and women by 0.10 and 0.50 hours per week, respectively”

2. Ensure income adequacy- reduce child poverty
From 1992 to 2004, children in workless households generally had poverty rates around four times higher than for those in households where at least one adult was in full-time work.

From 2007 to 2013, the difference was even greater – around six to seven times higher for children in workless households. This to a large degree reflects the greater WFF assistance for working families than for beneficiary families. (MSD 2015 Household incomes report)
What has been the cost to ‘non-deserving’ families

Since 1996 each year there has been a cumulative loss from poor families’ balance sheets

1996-2006 $2.25B due the CTC
2006-2016 $5+ B due to work based child tax credits

$7+. Billion and rising

2016-2026...???
The IWTC is an arbitrary payment
Who can’t have it?

- Poorest children
- Students even if full time
- Anyone on ACC since before 2006
- Any family on a benefit or NZ Super
- Any one whose hours fall below the minimum
- A separated mother
- Someone surviving on child support
- Sole parent on a part benefit working 20 hours
Case studies - IR website

• Dale is a single parent who works as a teacher aide for 22 hours a week. She's contracted to work for the school from February to December although she doesn’t work during the two week term holidays. She's entitled to receive an in-work tax credit from early February until mid-December because she works the required hours and receives income during that period.
Dale can’t receive an in-work tax credit during the summer holidays because she’s not contracted to work for that period.
Who can have this ‘work incentive’?

- Those who meet fixed hours and off benefit rules
- Mothers at home
- Those in large high income households.
- Casual workers but only for the weeks they meet the hours
- Mothers on Paid Parental Leave!!

Where is the child in all of this?
"Working for Families Tax Credits (WfFTC) are paid to eligible families with dependent children aged 18 or younger to help with the family's day-to-day living costs."

CPAG launched the Fix Working for Families Campaign on the 1st April 2016.

CPAG Summary FWFF campaign: Part one.

- Abolish all fixed hours of paid work requirements for the payment of any WFF tax credits.
- Abolish the IWTC. Add $72.50 to the first child Family Tax Credit. Cost: around annual $377-565 m

MOST cost effective way to improve child poverty
We have to spend some money to fix this problem

**TABLE 1**

How much additional weekly family income is needed on top of current welfare benefits to get over four poverty lines

<table>
<thead>
<tr>
<th></th>
<th>BEFORE HOUSING COSTS</th>
<th></th>
<th>AFTER HOUSING COSTS</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>50% of 2012 median</td>
<td>60% of 2012 median</td>
<td>50% of 2012 median</td>
<td>60% of 2012 median</td>
</tr>
<tr>
<td>Sole parent, one child</td>
<td>$0</td>
<td>$30</td>
<td>$82</td>
<td>$148</td>
</tr>
<tr>
<td>Sole parent, two children</td>
<td>$0</td>
<td>$78</td>
<td>$111</td>
<td>$194</td>
</tr>
<tr>
<td>Couple, one child</td>
<td>$0</td>
<td>$69</td>
<td>$156</td>
<td>$244</td>
</tr>
<tr>
<td>Couple, two children</td>
<td>$0</td>
<td>$110</td>
<td>$184</td>
<td>$286</td>
</tr>
</tbody>
</table>

Boston et al, 2013
...unless the incomes of ‘workless’ households with children can be boosted significantly by one means or another, major reductions in child poverty will be extremely difficult to achieve. It is critical that policy makers grasp this fundamental point. Jonathan Boston
OZ JUST DOES IT BETTER:

A comparison between Australian and New Zealand family tax credits (June 2016) Dr Ben Spies-Butcher and Dr Adam Stebbing of Macquarie University
OUTLINE OF 6 pronged campaign on FWFF

1. **Low income families**
   - Incomes under $36,000.
   - Families on benefits/Others
   - Child rights and discrimination

2. **Low income families**
   - Incomes over $36,000
   - Cumulative 5% inflation rule
   - Thresholds and abatement
   - Living wage and WFF

3. **Newborns and WFF**
   - Paid PL
   - Parental Tax Credit
   - Child care subsidies

4. **Work incentives of WFF and benefits**
   - abatement of benefits
   - Min Family Tax Credit

5. **Impact of other welfare assistance and WFF**
   - Childcare subsidies/ child support
   - TAS
   - AS

6. **WFF and relationship issues**
   - Universal payments
   - Basic income
Part 2

Low income ‘working families’

*Continuous* erosion of WFF
No changes until cumulative inflation is 5%

Last change 2012
A basket of goods and services that cost $1.00 in quarter 3 of 2011 would have cost $1.04 in quarter 2 of 2016.

<table>
<thead>
<tr>
<th>Metric</th>
<th>Value</th>
</tr>
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<tbody>
<tr>
<td>Total percentage change</td>
<td>3.7%</td>
</tr>
<tr>
<td>Number of years difference</td>
<td>4.75</td>
</tr>
<tr>
<td>Compound average annual rate</td>
<td>0.8%</td>
</tr>
<tr>
<td>Decline in purchasing power</td>
<td>3.6%</td>
</tr>
<tr>
<td>Index value for 2011 quarter 3 is</td>
<td>1162.0</td>
</tr>
<tr>
<td>Index value for 2016 quarter 2 is</td>
<td>1205.0</td>
</tr>
</tbody>
</table>

Next change not until 2018 or 2019?
NZ Super payments have increased not only because of demographic change but also because real rates of super have increased with wage growth.
“Working for Families was designed in good times and the cost has almost doubled over the past five years to $2.8 billion. We think the scheme is important to families, but we want to target it better and hold its cost” Bill English.
Erosion of WFF since 2010 ($March 2016)

Need another $700m to stand still (and another $500m to extend the IWTC)

Derived from BEFU 2016
2016 threshold $36,350 is set to fall to $35,000 over time.
The rate of abatement will rise to 25%.

2005 threshold was $35,000
2016 If indexed to prices would be $44,000
    If indexed to wages would be $52,642
Threshold in Australia is $51,903
abatement 20%
BY 2025 expect threshold be only $35,000
$36,350 in 2016 is no fortune

46 hours at minimum wage $15.25

Moreover and extra $10,000 means

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td>Tax</td>
<td>1750</td>
</tr>
<tr>
<td>acc</td>
<td>145</td>
</tr>
<tr>
<td>wff</td>
<td>2250</td>
</tr>
<tr>
<td>stud loan</td>
<td>1200</td>
</tr>
<tr>
<td>Kiwisaver</td>
<td>300</td>
</tr>
<tr>
<td>accommodation supplement</td>
<td>2500</td>
</tr>
<tr>
<td>total loss</td>
<td>8,145</td>
</tr>
<tr>
<td>disposable income</td>
<td>$1,855</td>
</tr>
</tbody>
</table>

Possible loss of childcare subsidy up to $60 a week
How does WFF fit with the living wage?

Based on 1.5 earner/2 children household

Total gross income is $61,776
WFF $ 6,162

Loss from abatement $ 5,772

WFF needs to be supported not eroded
Part 2 ask

- Full annual indexation of rates
- Full indexation of all threshold from 2005
- Abatement 20%
- Indexation to net wages
- Living wage campaign support FWFF
OUTLINE OF 6 pronged campaign on FWFF

1. Low income families
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   - Childcare subsidies/ child support
   - TAS
   - AS

6. WFF and relationship issues
   - Universal payments
   - Basic income
Case study IRD

Kezi is 20 years old. She has a two year old daughter for whom she receives child support. Kezi's been working for a temp agency for the past 16 months. Two weeks ago, she gave birth to a baby boy and is now at home with him. Kezi's new partner Mark is a student and receives a student allowance. Kezi can't apply for a parental tax credit but she can apply for paid parental leave.

CPAG says- this shows the support for newborns is broken—she is unlikely to get PPL, and then her baby misses out on the PTC and IWTC because her new partner is on a student allowance.
The Lottery for new borns?

<table>
<thead>
<tr>
<th>Baby</th>
<th>FTC</th>
<th>PPL</th>
<th>PTC</th>
<th>IWTC</th>
<th>total max support pa</th>
</tr>
</thead>
<tbody>
<tr>
<td>extra</td>
<td>$4,784</td>
<td>$8,326</td>
<td>$3,770</td>
<td>$16,880</td>
<td></td>
</tr>
<tr>
<td></td>
<td>$4,784</td>
<td>$2,200</td>
<td>$3,770</td>
<td>$10,754</td>
<td></td>
</tr>
<tr>
<td></td>
<td>$4,784</td>
<td></td>
<td></td>
<td>$4,784</td>
<td></td>
</tr>
</tbody>
</table>

(Note under Labour net PPL for 26 weeks is $12027)
Mostly Paid parental leave is a middle to high income bonus

Low income PPL is often a low payment only
“Paid parental leave is fundamentally a compensation for lost income. A high-income earner needs fewer hours to qualify for the maximum. It elevates the contribution to the paid workforce above all other considerations. Ironically it is not an employer payment and does not oblige the mother to go back to work and, despite being state-paid, it is not income tested. Paid parental leave is not fundamentally a state payment to support all newborns.”