

**2004 Winter lecture series**

**Are we wasting our children?**

**How can the economic position of children be improved?**

**20<sup>th</sup> July 2004**

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To date there has been limited public understanding of the importance of this issue. I congratulate Professor Innes Asher and her team on the initiative for this series. It must be seen as a measure of the seriousness of child poverty that our pediatricians are prepared to engage in the political debate to warn us of the consequences of what they are seeing.

This is hardly an easy question to address in the space of 20 minutes. I would say however that the first requirement is for there to be an audit of every new policy for its impact on children. Poor children in New Zealand have been largely invisible and it has been far too easy for policymakers to ignore them.

I was one of the contributors to the 1991 winter lecture series on the status of children that Professor Asher has mentioned. My lecture on the financial position of children followed the infamous Mother of all Budgets.

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One of the illustrations I put up, with some indignation as I remember, was this cartoon. In it, the politician is saying to the Minister of Finance “This budget is going to hit everyone except little children, Ruth”. She replies “by Jove you’re right I forgot all about them”. It was quite obvious to everyone that superannuitants and beneficiaries had taken a direct hit,

but the cartoonist appeared oblivious to the fact that the budget in fact entailed a direct and serious attack on children's living standards.

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The 1991 budget marked a watershed in the deterioration of children's economic position. Here is another overhead from 1991. Have we become accustomed to the headlines that in the early 1990s were such an outrage? As Professor Asher says are we so inured that we now accept the unacceptable as inevitable or normal?

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There have been truckloads of government reports and academic papers about the extent and consequences of low socio-economic status since 1991. The writing of reports has a role to play but has the economic position of poor children been improved?

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The definitions and measurement of poverty have spawned vast academic efforts, often unfortunately being more an end in themselves, rather than influencing policies to alleviate poverty. (They have also been useful in providing much employment for academics and government policy analysts if we are honest). Poverty lines are particularly controversial but *it is* necessary to have measures of poverty lines so that policies can be monitored. It is also necessary to have political recognition of poverty.

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For the first time there was an official recognition of poverty in the budget. The Prime Minister herself proclaimed "this is the biggest offensive in the war against poverty in decades." Because the 2004 budget itself projects a 30% decline in poverty by 2007 it is now clear that attention must be given, at last, to the monitoring of poverty levels. It implies that a poverty line will be officially adopted. This represents progress, but how far behind we are, and what a lot of catching up there is to do.

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In 1999 the UK Prime Minister Tony Blair made a promise: "Our historic aim, that ours is the first generation to end child poverty forever... it's a 20 year mission but I believe it can be done" Since then there has been a huge amount of attention paid to family incomes and billion of pounds have been spent on improving child tax credits. The aim has been to reduce child poverty by a quarter by 2005, a half by 2010 and eliminate it by 2020. This is beginning to bear fruit with the goals at five years achieved and many children lifted out of income poverty, but it is clear that it is a tough road requiring much more to be done if the goal of halving child poverty by 2010 and eliminating it by 2020 can be met.

In New Zealand, the lesson we can learn is that both political and public support for change is vital. It is clear from the UK experience that to make inroads into this problem a sustained and generous programme of redistribution to families is essential with full political commitment. The encouraging evidence is that more money does make a difference and that child poverty is not inevitable.

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Clearly child poverty is about far more than a lack of money, but without sufficient money families cannot get meaningful help with budgeting and other life skills.

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It would be hard to underestimate the importance of stable and secure housing. A child cannot learn and be healthy if constantly shifting from one poor housing situation to another. Some families are enjoying stability with income-related rents in the state sector but research shows housing costs are still a major factor in family poverty. The latest data from the NZ Council of Christian Social Services show that 70% of their foodbank clients spend more than 30% of their low income on rent and 30% spend more than 50%.

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Economic growth is not necessarily the solution to poverty. In the case of New Zealand it has been associated with a widening of the distribution of disposable income (income after allowing for taxes and benefits) since the early 1980s. The graphic charts the changes in real income for households arranged in tenths of the distribution (adjusted for household size). The top tenth of the distribution has improved its position dramatically while the lowest, where most young children are located, has lost ground. This data tells only a partial story as it takes no account of the soaring cost of housing for poorer households. The economy has been particularly buoyant in the past 3-4 years and families should be getting their heads above water. But low wages and high rents are still doing incredible damage.

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Thus despite the so called good times, The Auckland City Mission is finding this a very grim winter. Demand for food parcels, while dipping in the year to May 2003 has risen sharply again this year. For the first three months of this year, total food parcels have increased 40% compared to last year and in this wintry month of July, demand is even heavier. Since 1996 the demand for food parcels has doubled. These food parcels are not just the stop gap tin of baked beans. They are serious attempts to provide sufficient food for an entire family for 3-4 days. The increased demand is not because of poor budgeting or life skills but directly

reflects a lack of income and an accumulated debt. Quite frankly this is crisis material and the lives of children are at stake.

### Slide 12

One of the chief ways to improve the economic position of poor children is to protect their child benefits.

The history of family assistance in New Zealand has been one of neglect. From post war security when there was a meaningful and universal family benefit, low cost medical care and affordable housing New Zealand has increasingly adopted measures designed for the poorest families only.

In 1986 the tax credit Family Support was introduced as a per week per child payment based on family income. Also paid was the \$6 per child per week Family Benefit..

In 1991 the Family Benefit was absorbed into the tax credit Family Support and all of it reduced against joint parental income. Over time, the effect of inflation in reducing the spending power of these payments was considerable. Family Support was eventually increased in 1996, but \$15 of this increase was carved off and called the Child Tax Credit. Children whose parental income was from a benefit of any kind such as a student allowance ACC, superannuation, unemployment Domestic Purposes Benefit and sickness were excluded. In effect what happened in 1996 was poor children were denied \$15 of their rightful compensation for past inflation. While \$15 may not sound much, it is a highly significant amount for families on tight budgets and buys a lot of bread and milk.

One way to see the price such families have paid is that it has saved the government over 2 Billion dollars since 1996.

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To summarise a complex area. Payments for children are too low; have not been adjusted for inflation; cut out from low income levels; are all related to income; and poor children don't get the Child Tax Credit

### Slide 14

What are the messages so far? We cant rely on growth to help poor children. Nor can work incentives solve the problem. "Work not welfare" is a common catch cry, spawning the welfare to work programmes in the US and in New Zealand, the introduction of the Child Tax Credit in 1996. The Child Tax Credit must be judged a terrible policy both on grounds of being a very poor work incentive as it does not reward an extra hour of work, and because

it has intensified poverty and contributed to the build up in debt problems among poor families

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Compared to the UK and Australia we are well out of step. In both those countries per child weekly payments are the same for all children regardless of the source of their parents' low income- just as used to be the case in New Zealand before 1996. Both countries have a more generous and less targeted approach and both regularly adjust their payments for inflation.

In both countries there is a universal component to their family assistance. In the case of Australia the quasi-universal \$21 a week per child is reduced, but only for those on very high income.

In Australia the 2004 budget had some astonishing increases for families. For example, a lump sum was paid of \$600 per child to help those families whose incomes had risen in the past year and would otherwise be required to pay back some of the family assistance. As well there is another \$600 for the current year.

It is disappointing to find that in the case of New Zealand's budget, there is nothing for children until April of next year. It is hard to justify identifying a problem and then denying any immediate relief.

Slide 16 Family assistance is very complex. To illustrate, just for the poorest, take the example of a one-child, 2-parent family on a benefit. In 1986 their combined Family Support and Family Benefit was \$42 a week. Today their maximum Family Support is just \$47. The loss of purchasing power has been such that today instead of \$47 the one-child, very low income family should be getting \$75.

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The sorry history of decline in their family assistance is documented in this graph. In April of 2005 there is a rise in Family Support for the child of \$25 and another \$10 promised in 2007. On the surface these changes will eventually restore the purchasing power of Family Support, but all years of lost purchasing power over the past 18 years are not recouped. And, because of a technicality for those on benefits in which they lose \$20 of benefit in 2005, the poorest child is still well behind.

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For those who get the Child Tax Credit the picture is much better. In 2006 the Child Tax Credit is replaced by an 'in work' payment. This is a \$60 a week payment, increased by \$15

per child for families with four or more children. It certainly gives a boost, but drives a large wedge between those who qualify and the poorest who do not.

#### Slide 19

One of the prices paid by working families for their extra support in the budget is that they face very long income ranges over which extra money earned does not make very much difference. Over \$38,000 and an extra \$1000 earned \$330 is gobbled up in tax, there is \$300 loss of family support including the in work payment, and \$100 repayment of student loan. This leaves only \$270 in the hand.

To assist this problem, the Australians have reduced the rate at which their family tax credits reduce from 30% to 20%. In New Zealand this might have been a more sensible way to improve the rewards from working rather than the “in work payment”. The “in work payment” is complicated, requiring not only that neither parent be on a benefit, but also proof of hours worked. It may prove even more difficult than its predecessor, the Child Tax Credit to administer.

#### Slide 20

New Zealand has made a start in the 2004 budget, of that there is no doubt. But children who are poor right now should not have to wait until next year for relief, nearly a decade after their last morsel in 1996.

The spending on the “working for families” package is very significant - but this needs to be seen in the context of years of neglect. Unfortunately when families’ assets have been eroded over such a long period, an increase in income alone is not going to be an instant cure.

“In work payments” are a way off yet, but they will prove complex and will drive a further significant wedge between those families who qualify and those that do not. One has to wonder why only families will qualify if this is genuinely a reward to work

It is of concern that those on benefits are not going to gain much and that the “in work payment” from 2006 is complex and drives a further wedge between families who access benefits and those that do not.

While at last all family payments and the levels of income they apply to will be inflation adjusted, this will occur only after 2008.

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As in the UK the road ahead, after this 'first offensive' in the war will be difficult, but our children require that we keep fighting until we too have eliminated child poverty- at least the kind of child poverty that arise from simply having too few resources.

My suggestions are:

- **Provide a child audit of all economic and social policy**
- **Don't expect economic growth or work incentives to solve the problem**
- **Encourage the direction of the budget but as the first not last step**
- **Encourage more immediate action**
- **Create a climate in which change will be accepted and understood**
- **Support all efforts to redistribute to poor families and, above all, resist tax cuts.**