

# CHiLD POVERTY ACTION GROUP

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## **Submission:**

### **Welfare – principles and recommendations**

Child Poverty Action Group thanks the Alternative Welfare Working Group (AWWG) for the opportunity to submit on the issues raised in the paper. Child Poverty Action Group (CPAG) comprises a group of academics and workers in the field dedicated to achieving better policies for children. The aims of our organisation are:

- The development and promotion of better policies for children and young people.
- Sharing information and connecting with other groups with similar concerns.
- Elimination of child poverty in Aotearoa New Zealand

Along with other children's agencies, we remain concerned about the implications of the preferred direction of the WWG hinted at in the issues paper ("the paper") on children. We emphasise, along with many speakers at the WWG forum held in June, that any changes must not further disadvantage the most vulnerable children in the community. The goal must be to improve their wellbeing, not make it more uncertain.

## ***Introduction***

Child Poverty Action Group wishes to thank the AWWG for the opportunity to make this submission. The debate on welfare is an important one, and CPAG thanks those involved in the group for their efforts to open the scope of the discussion, and to include voices that might not normally participate in formal government processes.

This submission will work through the four discussion points briefly. We attach a copy of *What Work Counts? Work Incentives and Sole Parent Families*, which considers the impact of work incentives on the labour market participation on sole parents, and a copy of CPAG's critique of the Welfare Working Group's issues paper. This highlights some of the common misconceptions about welfare that have been repeated by the WWG, and argues that a buoyant labour market remains the most effective means of assisting those who are able to undertake paid work.

### ***1. Principles that are important for social welfare***

In 1972 the Royal Commission on Social Policy argued that benefits should be set at a level that supported participation and belonging. Although nearly 40 years old, CPAG submits this remains an important underlying principle – perhaps even more so now in light of New Zealand's high level of socioeconomic inequality. At a minimum, the framework for social assistance should not contribute to further inequality. Key mechanisms within existing legislation for increasing inequality include time limits on unemployment benefits, the requirement to continually update medical certificates for Sickness beneficiaries, sanctions for non-compliance with arbitrary work requirements, stringent benefit levels supplemented by difficult to access third-tier assistance, and high effective marginal tax rates that do little to reward work effort. All these provisions operate to make obtaining and remaining on a benefit more difficult, or reduce benefit payments. While the official rationale for this is that it encourages people to work, in reality they are barriers which serve to exclude people from both the labour market and benefit system, as happened in the US after the restructuring of social security in 1996. The function of social assistance should be to avoid the creation of an underclass dependent on socially unacceptable or informal ways to earn income.

From the perspective of children's welfare, a fundamental principle is that all children are entitled to a standard of living that enables them to have access to decent housing, good quality food, clothing, medical care, and a good education. All children should be treated as equals, regardless of their parents' work/marital or other status. Ideally, this would mean a universal child benefit that attached to the child, as New Zealand children once enjoyed.

More pragmatically, using family assistance payments for dual purposes, as occurs with the In-Work Tax Credit (IWTC), for example, should be avoided. Children's security of income should not be conditional on the fulfilment of other policy goals.

The third fundamental principle of social assistance, closely aligned to the first, is the avoidance of poverty, a goal that may entail more than simply monetary payment. It

may include providing access to health, drug addiction and housing services, or training and education. This principle assumes people do want to work (as opposed to assuming they do not), and do want to be independent of the benefit system, but that some people may need additional assistance to achieve this. The system must also recognise that paid work is not always possible or appropriate, and be sufficiently flexible to respond accordingly.

The final principle that must be noted in view of the Welfare Working Group's somewhat alarming suggestion that state-funded social assistance be replaced by a system of private insurance, is that social assistance must be funded collectively, through the state, to recognise the random occurrence of sickness, disability, sole parenthood, unemployment, and so forth. None of these is confined to any particular group, and no particular group should have to bear the burden they entail. Caring for the unlucky and vulnerable is communal recognition that any of us may need support at some time in our lives

## ***2. Examples of where these principles are not applied.***

Some of these have been noted above. They include: sanctions within the benefit system that can reduce or cut off people's income in the event they are unable to find suitable work; parsimonious social assistance payments and the use of loans to top up income; lack of recognition of barriers to work, and a system of effectively dealing with them; and the tying in of children's income assistance—the In-Work Tax Credit – to a work incentive and parental work status. CPAG has argued that the IWTC not only discriminates against the children of beneficiaries on the basis of their parents' work status, it is also fundamentally flawed as a work incentive.

In general, New Zealand's system of social assistance has moved a long way from the universalist principles envisaged by the 1972 Royal Commission, and, perhaps, even further away from the idea that beneficiaries are part of the community, and entitled to the minimum standard of living this reflects.

## ***3. Ideas or recommendations for change***

Reforming social assistance to better assist families avoid poverty and reduce stigmatisation will be a process that will take time and political commitment. Sadly, the latter has been lacking for many years now.

CPAG strongly submits that the one of the most egregious, and readily remedied, flaws in the current system is the linking of family assistance and work incentives through the IWTC. Making this payment available to all low-income families would remove discrimination against New Zealand's most vulnerable children, would decouple two separate policy goals, and provide a significant income boost to the poorest households in the community.

Legislation must recognise that parenting is work, and the unnecessary and punitive 15 hours per week worktest for sole parents must be removed. Benefits need to be

increased, and there needs to be a simplification of the interface between the benefit and tax systems. One easy and relatively cheap change would be raising the earnings threshold for beneficiaries from \$100 to \$160, and lowering the effective marginal tax rate of earnings above this level.

CPAG also recommends that, where possible, beneficiaries be encouraged to save – perhaps through a partnership with Kiwibank – in order to begin to accumulate savings that can help in emergencies, or enable people to make purchases without resorting to loans. Beneficiaries having savings is at odds with the present system of income and asset testing, but having savings gives people a stake – however small – in the wider community. CPAG argues that, in the end, this is better for families and the communities in which they live.

#### ***4. General comments about the welfare change***

It is clear the government is keen to restructure social provision, and ultimately the nature of the state itself, in a manner that puts the risk for income security on individuals, and puts them at the mercy of a volatile, low-wage labour market. This is the system that prevailed prior to the implementation of the welfare state. The shortcomings of this system and hardship it engendered, eventually became socially and politically unacceptable, leading to the establishment of the welfare state as we understand it today.

It is with great trepidation that CPAG is observing the dismantling of social assistance and the provision of social services. Cohesive societies do not seek to widen the gaps between those who have access to a basic standard of living and those who do not: rather they seek to include as many people as possible for the benefit of all. In an increasingly uncertain world, social inclusion, social cohesion, and the community resilience they imply must be the end goals of social welfare.