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Welfare Working Group

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Submission:

Long-term benefit dependency issues paper

Child Poverty Action Group thanks the Welfare Working Group (WWG) 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

The Welfare Working Group (WWG) was set up by the government to undertake an “expansive and fundamental review of New Zealand’s welfare system”.¹ Specific questions for the review are:

- how long-term benefit dependence can be reduced and work outcomes improved, including for sole parents;
- how to promote opportunities and independence from benefit for disabled people and people with ill health;
- how welfare should be funded, and whether there are things that can be learned from the insurance industry and ACC in terms of managing Government’s forward liability;
- whether the structure of the benefit system and hardship assistance in particular is contributing to long term benefit dependency and what could be done to address this.

Excluded from the review are superannuation, income adequacy from welfare, the tax/benefit interface (ie Working for Families), and overlaps with ACC and the health system. All these areas provide context, and/or need to be addressed in any meaningful review of welfare. The WWG is left with a narrow focus on ‘dependency’, and a mandate to manage beneficiaries into paid work. It is disappointing that the WWG has used data selectively to assert the present system is ‘unsustainable’, and argue that work unambiguously improves “outcomes” for parents and children.

This submission is in response to the WWG issues paper. It proceeds by answering the questions, most in some depth. We note that the questions have little relationship to the issues set on p. 66 of the Issues Paper, thus we consider the issues as part of our response to the questions.

¹ <http://ips.ac.nz/WelfareWorkingGroup/Index.html>

- 1. *What do you think the goals and objectives of the benefit system should be?***

- 2. *Are there aspects of the benefit system that are outdated and have not kept place [sic] with the changing nature of work and families?***

- 3. *What aspects of the current benefit system are working well and should be retained?***

The current system needs radical change. It is based on the model of two-parent families, with one parent in work and the other, presumed to be the mother, at home to look after the children; where something akin to full employment is the norm, and there are sufficient publicly supplied goods and services to minimise the impact of temporary reductions in income. Almost none of these conditions apply in the 21st century.

In 1972 the Royal Commission on Social Policy, acknowledging that 'relative poverty' matters, recommended setting benefits at a level that enabled recipients to enjoy a standard of living much like that of the rest of the community, and thus feel a sense of participation and belonging.² In 2010 this objective should be reinstated.

For families with children, the benefit system must provide income adequacy, with the goal of minimising or reducing the gap between those on welfare and others in the community.

The benefit system has become unduly complex, with different criteria for assistance, differing abatement rates, and a complex interface with the tax system. While the benefit/tax interface has been left out of the WWG's terms of reference, it is impossible to talk sensibly about benefits without talking about tax. The tax/benefit interface is problematic and provides significant disincentives for beneficiaries to leave the benefit system. This interface has been made more complex with the recent passage of the Social Security (New Work Test, Incentives and Obligations) Amendment to the Social Security Act.

Any updating of the system needs to address core background issues such as the changing nature of families, women's labour market participation, labour market volatility, and the fact that many services once provided by the state at cost are now a great deal more expensive, including housing and housing finance. We note that the calculation of the future liability of the benefit system assumed a background unemployment rate of 5% - that means one in twenty workers looking for work are

² Royal Commission of Inquiry into Social Security, 1972, p. 65.

unable to find it. This is not full employment, and any proposed changes must recognise this.

The goals and objectives of the benefit system must therefore be to assist people to avoid poverty in an increasingly uncertain world. For some, this may involve provision of non-benefit assistance to help overcome medical problems or receive training. For children, the goal must be to achieve a standard of living that enables them to be a part of their communities. Money alone cannot do this, but an adequate system to provide the basics, including housing, nutrition, and medical care, must be the primary concern.

We **submit** that the benefit system needs an overhaul, and that this **must** include measures to ensure income adequacy for families with children, and to minimise and reduce socioeconomic inequality in New Zealand. Workforce participation alone cannot achieve this, nor has it ever done so.

We note the WWG asks what aspects of the benefit system are working well and should be retained. We suggest the income support and other assistance provided to the aged in our society could be replicated for the young, and for others in need.

4. What aspects of the benefit system contribute to long-term benefit receipt?

5. What impacts do you see from long-term benefit receipt on individuals, families and whanau, communities and the economy?

These questions assume “long-term benefit receipt” is a far bigger problem than the evidence suggests it is. Clearly, the most damaging aspect of long-term benefit receipt is economic: benefit levels remain low, and the gap between beneficiaries and others has grown markedly in the last 10 years. There is now a large body of evidence that not only are low incomes damaging in themselves, but low relative income such as that which is the norm for beneficiaries is equally damaging.³ At present a single unemployed person over the age of 25 gets a basic benefit of \$194.12; a sole parent gets \$278.04. To this can be added Accommodation Supplement, which covers only part of rent/mortgage payments and, for the sole parent, the part of Working for Families called the family tax credit that increases with the number of children.

³ Wilkinson, R, and K Pickett. 2010. *The spirit level : why equality is better for everyone*. London: Penguin. See also St John, S, and D Wynd. 2008. *Left Behind: How Social and Income Inequalities Damage New Zealand Children*. Auckland: Child Poverty Action Group, for effects of socioeconomic inequality in on New Zealand children.

Damage also arises from the demonisation by mainstream media and social commentators of those reliant on the benefit system. Terms such as ‘dependency’ and ‘personal responsibility’ all suggest that perceived problems are those of individuals alone, and this stigmatises and disempowers many beneficiaries.

Many factors contribute to long-term benefit receipt, and it is regrettable that the WWG has not undertaken research to determine what these might be, and address them.

We are deeply concerned at the misinformation that is being promulgated about the duration of benefit receipt. The figures in the WWG paper use Ministry of Social Development working that has calculated the average time each beneficiary spends on a benefit, either as a single period or as multiple spells. This use of averages is misleading because a few people collecting benefits for extended periods raises the average time on a benefit for all beneficiaries. One way around this is to use the median length, as is done with income data, or taking a weighted average, which would give greater weight to those who are only in receipt of a benefit for a short time. Almost 70% of Domestic Purposes Beneficiaries, the largest group of beneficiaries, are off a benefit within four years, consistent with caring for children prior to their going to school. Only 10% of this group are on a benefit for 10 or more years, and they are often mothers caring for older disabled children, or caring for multiple children, including others’ children.⁴ We also note the increase in the number of older women on the DPB for longer periods is consistent with them caring for grandchildren, who are often traumatised.⁵

We **submit** that making receipt of benefits more difficult or time-limiting benefits will be counter-productive in the long term. Poor health is a major contributor to being on a benefit, as would be expected given that two of the four main benefit types are for the sick and/or disabled. New Zealand research has also shown the debilitating effects of poor health on sole parents.⁶ Poor health and low income sets up a self-perpetuating cycle that can be very difficult to break. Where poor health is a factor in long-term benefit receipt, we **submit** that specific policies and processes need to be put in place to deal with these (for example substance addiction treatment).

Where benefit receipt is concentrated in families and communities the social problems that are a feature of low incomes and high rates of unemployment will be present. These problems can be self-perpetuating within neighbourhoods – the ‘neighbourhood effect’. Over the last 25 years families on benefits have tended to become concentrated in certain suburbs and towns, and for these communities the impact has been a social disaster. The cost to the economy of high concentrations of

⁴ See Ministry of Social Development benefit fact sheets, <http://www.msd.govt.nz/about-msd-and-our-work/publications-resources/statistics/benefit/index.html>. See also Dale et al, fn 10, p.14.

⁵ See <http://www.raisinggrandchildren.org.nz/>

⁶ Baker, M, and D Tippen. 2004. More than just another obstacle: Health, domestic purposes beneficiaries, and the transition to paid work. *Social Policy Journal of New Zealand* March 2004 (21):98-120.

unemployment and inequality, for that is the core issue here, is also significant – a point picked up by the Royal Commission on Auckland Governance.⁷ Moreover, while rural areas – predominantly Northland, Eastern Waikato and Bay of Plenty, and the East Coast – remain economically stagnant there seems little to gain from arguing that the benefit system is to blame for long-term benefit receipt.

There is also the financial aspect of long-term benefit receipt. It is a mistake to say that people plunge into poverty: poverty creeps up as assets and savings are run down, clothes and shoes are not replaced, food choices become severely restricted, and housing quality deteriorates, often resulting in poor health. For families on benefits for several years, this is a common experience.

A key factor in the running down of savings and assets is low benefit levels, and increasingly restricted access to additional assistance. High effective marginal tax rates (EMTRs) are a disincentive to work, especially if the costs involved exceed the financial benefit from working. Moreover, benefits are asset tested so there is little incentive to save (even should income levels allow for this), and this makes moving from benefit poverty very difficult for families. Work alone cannot deal with these issues unless parents can work the required hours for Working For Families tax credits (in which the fiscal cost may be as great or greater than being on a benefit or part benefit). A contributor to some long-term benefit receipt is lack of financial resources to prepare for job interviews, organise childcare and transport, and have savings to fall back on in the event that beneficiaries find themselves out of work again. These high EMTRs are the real ‘poverty trap’ that lock in some beneficiaries.

We **submit** the issue of long-term benefit receipt is overstated. Where beneficiaries are on benefits for extended periods, better case management and support services would assist people to deal with the underlying issues, and economic development programmes would provide communities with meaningful jobs at an adequate wage level.

Evidence suggests that people with adequate support and a reasonable standard of living in the first instance are more able to move back into work if and when required. Increasing the earnings threshold to \$160 would also enable beneficiaries to keep a greater portion of their earnings, thereby assisting them to attach to the labour market when appropriate.

⁷ [http://www.royalcommission.govt.nz/rccms.nsf/CONTENTPAGES/\\$first?open](http://www.royalcommission.govt.nz/rccms.nsf/CONTENTPAGES/$first?open)

6. What do you see as the main barriers to employment for people on a benefit?

7. What are the barriers to employers hiring long-term beneficiaries and also investing in workplace health programmes?

For thousands of beneficiaries, being on a benefit is temporary, and most manage to find work within a short time. The Minister herself has noted there is a great deal of churn among those on unemployment benefits,⁸ and this group is especially sensitive to changes in labour market conditions. As well, Treasury noted in its comment on the Future Focus Bill that the Sickness Benefit was a stop-gap, and that most Sickness beneficiaries used it for that purpose.

Some of the barriers to work are mentioned above. Lack of work is the most obvious barrier. For parents, lack of childcare remains a significant barrier, especially for parents in low-income suburbs and rural areas short of childcare facilities; other barriers include sick or disabled children or other whanau who require constant care; lack of transport and/or high transport costs, especially in rural areas; high EMTRs;⁹ poor health; the likelihood of insecure work and the possibility of having to re-apply for a benefit: all of these are barriers to working, and none can be dealt with by tightening up on benefits.

We also draw attention to the fact that this question seems to be focussing only paid work only. It was made very clear at the forum that many people engage in unpaid work in their communities, and that this work is valuable and valued by both those performing the work and the communities they work in. It is disappointing that this point has not been acknowledged (except for a one-off mention on p. 3) in the paper. People's sense of wellbeing comes from engagement and contribution, and the sense of being valued by others. Unpaid work is as capable of achieving this as paid work, unless wellbeing is being considered only in the narrowest sense of economic reward.

For those with illness or disability, a further barrier is employer discrimination. According to the Disabled persons Assembly, employer discrimination is the single biggest barrier to employment.

There are no discernible barriers to employers hiring long-term beneficiaries, except prejudice. Employers in some cases already have the right to employ people on 90 day trial periods so the argument that employers are locked into a contract if the employee does not work out no longer holds.

We offer no comment on investing in workplace health programmes.

⁸ <http://www.scoop.co.nz/stories/PA1009/S00078/more-than-6000-beneficiaries-find-jobs-in-august.htm>

⁹ We note the Future Focus legislation has attempted to address this in some cases by imposing mandatory work of 15 hours per week, but this is **not** a measure to improve economic wellbeing or reduce poverty and leaves beneficiaries still ineligible for IWTC.

We **submit** that the barriers to employment identified here are not within the benefit system, but external to it, and must therefore be dealt with through measures other than adjusting the *parameters* of the benefit system. However, it would greatly assist people in need of support if *services* could be accessed through Work and Income as part of wrap-around programmes designed to help people recover from ill health, or assist with care of family members, for example.

8. Should there be more focus on paid work for parents?

The DPB was intended to give sole parents financial security while they cared for their children. While caring for children and working are not incompatible, the barriers faced by many parents, noted above, often make paid work difficult, if not impossible. Moreover, caring for children is an important work and needs to be supported, not denigrated.

It is not obvious that the DPB lacks a focus on paid work: WFF provides a significant cash incentive for sole parents to work at least 20 hours per week, and 30 hours per week for a couple, and the Future Focus legislation mandates work-testing for sole parents with a youngest child aged six years or over, with a minimum 15 hours per week stipulated.

We **submit** that rather than focussing on paid work through the benefit system, precedence should be given to provision of services to assist parents into work **if and when appropriate**. We further **submit** that work **must be secure, adequately paid and socially acceptable**. The goal of policy for parents must be to ensure an adequate income and financial security for children whether through work or through benefit support.

9. Where appropriate, should there be more of a focus on paid work for people managing with a sickness or disability?

As noted above, the biggest major barrier to work for those with sickness or disability is employer discrimination. While this remains the case, mandating work for Sickness and Invalids beneficiaries will only add stress, and possibly jeopardise their economic wellbeing.

Arguing that the Invalids Benefit lacks a focus on paid work is to misunderstand the requirements of receiving an Invalids benefit. Recipients must:

- be unable to regularly work 15 hours or more a week because of a sickness, injury or disability which is expected to last at least 2 years *or*
- have expected life expectancy of less than 2 years and be unable to regularly work 15 hours or more a week *or*
- be blind with a specified level of restriction in their visual field or in the sharpness of their vision.

The paper notes: “New Zealand’s rate of employment for disabled people is one of the highest in the OECD. Around two in three disabled people, with low or medium levels of support needs, are in employment.” (p. 16). We also note that in “reasons for leaving a benefit” (p. 11) 27% of Invalids beneficiaries leave a benefit because they have died. It seems somewhat pointless to argue that this group needs a greater focus on work.

We **submit** that the evidence suggests that Sickness beneficiaries use the benefit as a stop-gap as intended, and there is little evidence they need a greater focus on work (especially as they are now required by law to seek 15 hours work per week). Further, given that New Zealand’s rate of employment for disabled people is relatively high, and a quarter of Invalids beneficiaries leave the benefit through dying, there is little to gain from imposing additional work requirements on this group.

10.Does the benefit system do enough to encourage personal responsibility?

From the context it is assumed that ‘personal responsibility’ means looking for work. CPAG does not agree with the assumption embedded in this issue that beneficiaries need punitive measures to move off them off a benefit, when the evidence clearly suggests otherwise.

CPAG’s research¹⁰ makes it clear that most parents would rather work if and when possible, and benefit data makes it clear that sole parents will work when the labour market allows them to do so. We cite Layard and Jackman: “What puts a limit on feasible demand is feasible supply...in the long run the supply side rules.” Note, this is “the long run”. In a later paper Jackman et al clarify: “Employment expands as the effective supply of labour expands... But, as expressed so far, it is a medium term argument. In the short-run there may be some constraints on the demand side.”¹¹ They conclude that: “It seems better to focus on the proper role of government in affecting unemployment. Clearly, lower benefits of shorter duration would reduce unemployment, but these policies should be accompanied by more (not less) active labour market policy... And they ought certainly to ensure that most youngsters enter adult life with a basic level of competence.”¹²

Here, active labour market policies include full employment, and the provision of services that allow parents to work while their children are cared for. There is no discussion of these in the paper.

¹⁰ Dale, M, D Wynd, S St John, and M O'Brien. 2010. *What work counts? Work incentives and sole parent families*. Auckland: Child Poverty Action Group (Inc). www.cpag.org.nz for Executive Summary.

¹¹ Jackman, R, Layard, R, and Nickell, S. 1996. *Combatting unemployment: Is flexibility enough?* Centre for Economic Performance, discussion paper 293, March 1996. http://eprints.lse.ac.uk/2214/1/Combatting_Unemployment_Is_Flexibility_Enough.pdf.

¹² *Ibid*, p. 31.

We **submit** that ‘Personal responsibility’ embraces other notions besides work: the responsibility to care for ones children, or other family members; to care for others in the community, and be a good citizen.

The focus on ‘personal responsibility’ here is vague. If it is taken to mean only the responsibility to obtain paid work, then we **submit** that this overlooks the very real incentives and existing legal requirements to obtain paid work already operating within the benefit system, and overlooks other responsibilities that may preclude caregivers from participating in paid work. We further **submit** that governments have a responsibility to protect and promote the welfare of vulnerable citizens, especially children.

11.Should the scope and nature of current benefit categories be retained?

12.Does the complexity and structure of supplementary payments create disincentives to paid work?

We are aware that MSD has spent some time working on a single benefit, with add-ons for different categories of beneficiaries. This would be as complex as the existing system, and short of a single benefit for allcomers, there seems no easy way to replace the existing system.

A single benefit for all without additional payments for certain categories of beneficiaries would be a step backwards. At present there is recognition of the costs of long-term benefit receipt built into Invalids benefits, and a small additional sum to recognise the cost of raising children for sole parents. While these could be stripped out and added on separately, this would increase the chances of recipients not getting their full and proper entitlements, and would further increase the complexity it is implied the WWG would prefer to reduce.

Supplementary payments or third tier means-tested or repayable grants may be a strong disincentive to work. The biggest disincentive arises from high Effective Marginal Tax Rates and the complex interface between welfare and tax.

We **submit** that the complexity of the tax/benefit interface, and its associated high EMTRs can be a disincentive to work, and more reliance on supplementary payments within the benefit system and less on adequately increasing core benefits provide a very strong disincentive to part time paid work.

13.How can Work and Income and other delivery agencies better support people into paid work?

This question should be “should Work and Income better support people to deal with barriers to work, if possible and where appropriate?”

We **submit** that priority must be given to identifying disengaged sole parents and working across the relevant sectors (health, housing, skills) to assist them to re-engage with whanau and the wider community. Similarly, at-risk children must be identified and a whole-of-child approach utilised to ensure they have sufficient resources to secure their wellbeing. This is especially important for under-5s, who are particularly vulnerable.

14. Are there lessons from an insurance approach for the benefit system?

The WWG's paper reduces people's need for social assistance to risk sharing between the insurer and the insured, with incentives to reduce the chance of adverse risk occurring. Risk sharing is what insurance is about, and is the basis of insuring one's house or car. Such contracts assume equal bargaining power between the parties, premiums based on well understood risk probabilities, and that the value of the insured item is known and agreed prior to the signing of the contract.

To see how the application of this might work for social assistance, consider the hypothetical case of a service industry worker on \$15 an hour who is also a sole parent with two children. At a gross income of \$31,200 per year, she cannot afford much insurance, and opts for 6 months unemployment insurance to cover her net wages. If she is made redundant, takes up her insurance cover, but finds a job again within six months, she might be back to where she started. However, in a recession, with many people desperate for work before their unemployment insurance runs out, sole parents are usually the last group to be taken on. The first option for her, if work is not available when the six months is up (as is occurring currently in the USA) is moving back into public social assistance at a vastly reduced rate. Under legislation just passed in New Zealand, she faces the threat of having that reduced even further if she cannot find 15 hours work per week. The second option is non-market or informal economy income, rather than work that is safe and appropriate. Under this option, she would not qualify for tax credits.

While the WWG paper is in no doubt that: "More transparent performance, linked to outcomes in the insurance industry justifies access to a full range of measures needed to achieve lower costs and better outcomes" (p.47), there are risks associated with the failure of a private insurance model. The question is who benefits from these "better outcomes"? What "better outcomes"? How they would be measured and what would be sanctions for providers if "better outcomes" were not achieved?

In the USA, the model for private insurance, the average time a person spends unemployed is now at a record 35 weeks, well over the 6 months average for unemployment insurance. The human misery this has engendered has prompted Congress to step in to extend unemployment insurance for millions of Americans.

Insurance companies are not charities, and one of the few growth industries in the US at present is declining new claims from unemployed workers.¹³

Is entrenching such inequalities really the reform New Zealand should be seeking? The insurance model, and its failures in the US and Canada needs to be thoroughly scrutinised before it is imposed on the low-wage, precarious labour market of the 21st century.¹⁴

We **submit** that for all its imperfections, a quasi-universal social assistance model is more equitable, and provides greater income security than an insurance-based model would do. Given the number of children who have suffered as a result of the recession in the US under their insurance-based model, CPAG is alarmed that this model is being suggested.

15. Do you agree that the current benefit system is socially and economically unsustainable?

A key justification for the review and its emphasis on moving beneficiaries into work is that the present system is 'unsustainable'. A figure of \$50 billion total future cost has been arrived at by assuming that everyone on a benefit in 2009 (355,000) stays on a benefit for 10 years, either as a single spell or in multiple spells. The total future cost is then calculated in \$2009.

Calculating total future liability is what private insurance companies do, because they are required to hold cash reserves to meet those liabilities. It is not a way to run a government welfare system. If it were, why not calculate the future liability of superannuation? Or all the future costs of the health and education systems? Do we then say they are unaffordable and get the government to opt out of provision, or tax people more now so that all future liabilities are covered?

One issue that is obscured by the limited scope of the review is the cost of superannuation and work subsidies. According to the 2010 budget, spending on New Zealand Superannuation for the 2010/11 fiscal year is \$8.8 billion. Spending on Working for Families Tax Credits is \$10 million for the Minimum Family Tax Credit, \$19.8 million for the Parental Tax Credit, \$0.6 billion for the In-Work Tax Credit, and \$2.2 billion for the Family Tax Credit (a tax credit available to all low-income families) – a total of \$2.8 billion.¹⁵ This is substantially more than the \$1.7 billion (or approximately \$1.4 billion after Child Support recovery) paid to Domestic Purposes beneficiaries. While superannuation has been flagged as an issue for future taxpayers, no one has suggested the total future cost be added up and presented as a future liability. Moreover, although we don't know how the \$2.2 billion Family Tax Credit is split between beneficiaries and working families, there must be equally

¹³ <http://www.nytimes.com/2010/04/04/us/04talx.html>.

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<http://www.business.auckland.ac.nz/Schoolhome/Research/Researchcentres/RetirementPolicyandResearchCentre/Events/2010Unemploymentinsuranceseminar/tabid/2137/Default.aspx>

¹⁵ Estimates of Appropriations 2010/11, Vote Revenue.

pressing questions regarding the sustainability of tax breaks for families to keep them off benefits. The WWG does not discuss the future costs of tax breaks for working families. Yet these costs will be even more significant in the future as beneficiaries move into work, increasing the number of those who qualify for tax credits, and increasing the cost.

We would also suggest that the huge cost of keeping a high percentage of a disengaged and disaffected population in prison needs to be a part of the discussion about adequate assistance to families. For example, the Justice Department is anticipating a prison population of 5620 males and 340 females in 2010 (or 139 people per 100,000), with violent offenders comprising 60% of the male prison population. The annual cost per inmate is \$140,000, a total annual cost of \$834.4 million (excluding the costs of a further 1380 people on remand). In comparison, the spending required for adequate incomes for beneficiaries, and adequate support for nutrition, education and skill acquisition for their children would lead to significant savings as well as significant improvement in the quality of contribution to GDP.

We **submit** that there is no justification for presenting the future costs of welfare as a fiscal crisis that must be dealt with now. We do not do this for health, education, or any number of other state-funded activities. Moreover, it elides the cost to the taxpayer of state subsidies to keep people in work, subsidies that may be more than the cost of a benefit or part benefit.

Welfare is not socially unsustainable, poverty is. Low benefit levels, and official policies designed to increase the income difference between those in work and those on benefits have been a major contributor to New Zealand's social and income inequality, and it is this that is socially unsustainable. Making welfare more difficult to get, time limiting benefits, and making payments even meaner will not enhance New Zealand's social cohesion and long-term sustainability, it will make it worse.

16. Are there important issues that you think are in the terms of reference for the Welfare Working Group that you think we have not covered in this paper?

Yes. The long-term negative impact on wellbeing, and social and physical development of the children of New Zealand of an increasingly limited and punitive regime of social assistance.