



The Poor Kids!

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For over ten years the Child Poverty Action Group (CPAG) has been calling on successive governments to eliminate child poverty in New Zealand. Labour's response, the Working for Families package, put some welcome money at long last into the lean budgets of low-income families. However, it simply did not go far enough nor fast enough and has left the children of beneficiaries as poor as ever.

The boost to Family Support was long overdue and helps compensate for the effects of inflation on this payment since it was last adjusted in 1996. The rest of the package gets rolled out slowly like the infamous tax cuts of the 2005 budget. Surely, if something is worth doing it should be done as soon as it is seen to be worth doing? At no time is this more critical than in the vulnerable and formative early years of all children.

Low-income families, who receive any benefit income at all, missed out on the Child Tax Credit of \$15 per child per week in 1996 and then got very little out of the changes this April. Most of these families had their core benefit cut which, along with changes to their special benefit, offset gains from the increase in Family Support. About 250,000 children in benefit families are affected and will now wait for another two long years before there is a \$10 per week per child increase, and until after 2008 for an inflation adjustment.

Despite Working for Families, a sickness benefit plus Family Support for a couple with two children is \$30 a week lower in today's money than 15 years ago. A sole parent with two children is \$35 worse off. Although there has been substantial real economic growth over the past five years, the latest figures from the Ministry of Social Development show over one half of beneficiaries are still living under the poverty line. Among those with children aged 0-4, when crucial developmental growth is occurring, 28% were reliant on benefit income in 2003 (Ministry of Social Development, 2004). Other costs such as housing and petrol have increased for most low-income families and yet the government is to reduce spending on the Special Benefit affecting those experiencing the greatest hardship.

People working in food banks with poor families know that complex entitlements don't work. The Child Tax Credit is fiendishly complicated for families who move in and out of the work force, and its take-up rate has never been estimated nor its usefulness as a work incentive evaluated. On 1 April 2006, a new more generous In Work Payment (IWP) will replace the iniquitous Child Tax Credit. But, like the Child Tax Credit, the In Work Payment is related to the number of children and paid only to families where no core benefit is received, and who can show they work 20-30 hours a week (depending on family configuration). The complications of raising small children coupled with the insecurity of part-time and casual work is a recipe for precarious

qualification for the IWP. Yet, astonishingly, the government's projections of falling poverty rates are based on the assumption of 100% take-up rates. Experience with the low take-up rate of the Community Services Card by those most in need should indicate that high rates are unlikely.

Though massive amounts will be spent on promoting the In Work Payment, expensive advertising cannot overcome the access problems. Furthermore, several millions of dollars are being channelled into an evaluation of the Working for Families package. Doubtless, the conclusion from this in 5 years time will be that complex entitlements do not work. Rather than wait for the inevitable, the government should revisit the announced part of the package for 2006.

The government could follow the lead of other countries which do not use children payments as work incentives. Treating all children the same for family supplements is policy in the United Kingdom Australia and Canada. Work incentives can be enhanced by other measures – for example, the Australians use lower rates of abatement of family assistance and generous thresholds. Certainly, alternative policies advocated by a National-led government, if returned to power, will entrench poverty further by offering tax cuts.

We have seen in New Zealand how when the economy booms, people get work. They want to work, and a work-related child supplement is not the motivator. Lump sums are also ineffective work incentives because they do not reward an extra hour of work. Furthermore, they are damaging as they perpetrate high effective marginal tax rates over long income ranges.

What poor families need is a secure reliable income supplement for their children that they can budget on, not a source that disappears when hard times emerge. Citizens over 65 can rely on superannuation, which is inflation-adjusted each year and linked to living standards generally. It is provided irrespective of other income and has been very successful in virtually eliminating poverty among those over 65. New Zealanders accept this as fair and appropriate. Why should the poorest children be penalised with lower payments just because their parents' income source changes?

The cost of the In Work Payment (\$350 million per annum) would be better spent by extending the Child Tax Credit to every child by adding it to Family Support. This would restore the principle, of which New Zealand was once proud, that all children be treated equally. Once this is done it is time to consider making a good part of the Family Support payment a universal family benefit.

REFERENCES

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Janfrie Wakim is currently Director of Child Poverty Action Group and has a background in both the secondary and tertiary education sectors. Her last position was as a tutor in the Certificate of Health Science programme in the Dept of Maori & Pacific Health, Auckland University. Alarmed by the rising poverty of children in Aotearoa-New Zealand in the early 90's, Janfrie became a founding member of the Child Poverty Action Group. She is parent of four adult children who enjoyed all their pre-school years as playcentre kids.

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Susan St John's research and teaching interests are focused on public policy issues, macroeconomics and the economics of the public sector. Areas include taxation, pensions, accident compensation, family law and economics and income support. In 1997 she was deputy chair of the Periodic Report Group on retirement incomes. In 2004, the text *Macroeconomics and the Contemporary New Zealand Economy* with Scott Fargher, first published with Rob Scollay in 1996, and revised in 2000 was substantially updated.

Current projects include an analysis of family incomes in New Zealand, the welfare state and targeting, the role of pensions and annuities in New Zealand, international pension systems, the economic implications of New Zealand's Accident Compensation, and tax reforms. She is a member of and contributor to the Child Poverty Action Group Inc NZ.