What would we do if we really cared about child poverty and inequality

Victoria school of governance
19th June
Susan St John
Impressions from my US study trip 1995

While academic research can have a valuable objective role as a counter to the anti-intellectual debate that otherwise goes on, there is more than a grain of truth in the assertion that it is also a source of money, prestige and jobs. The plodding incremental nature of much research may often render it ineffective, and its lack of advocacy frustrating. Academic researchers are often geographically, emotionally, socially and economically far removed from the people who are poor.
In 1995 Wisconsin newspapers were putting the institute under the microscope.

They ASKED:

- What more do we need to know about the detrimental effects of poverty?
- Don’t bad things happen when people do not get enough to eat?
- Don’t we know that children from poor families often have to play catch up at school?
Academics would

• Come out of their Ivory towers and get their hands dirty
• Discover a sense of outrage
• Learn from our history
• Insist on consultation, especially with each other, but also proper policy processes
• Be clear in advice given to the government
• Watch out for simplistic sloganeering—be careful what you ask for
• Flag pointless academic debates and assume the case has been made
The income Gini in New Zealand (MSD 2014)

The Gini can sometimes fluctuate from one survey to the next. When that happens the trend becomes clear on looking back.

In recent years there has been some volatility in household incomes, reflecting the ongoing adjustments to the impact of the GFC, Christchurch earthquakes, and the associated economic downturn and recovery. There is no evidence yet of any rising or falling trend in the Gini in recent years.
Real equivalised household incomes (AHC): decile boundaries, 1982 to 2012 (2012 dollars) revised 2014
We should assume the case for tackling child poverty has been made

Let's take solutions seriously
MSD has repeatedly told us that policies are a problem

2007 *Pockets of Significant Hardship* raised alarm:
“Although WFF has increased the weekly payments for eligible families, there may be special circumstances which mean WFF and social assistance may not be sufficient to keep some people from significant poverty and hardship.”
2014- oops Treasury and Stats made a mistake!!

• The picture is embarrassingly worse. 20,000 more children are under 60% line

• Depth of poverty clearly much worse

• We now know that 205,000 children fall below 50% poverty line

• What will Perry 2014 be saying?
Proportion of children below selected thresholds (AHC): fixed line (CV) and moving line (REL) approaches (Perry 2014)

Between 205,000 and 285,000 New Zealand children live in poverty, depending on the measure used.
The tax welfare interface

• Too hard basket
  – Tax Working Group 2010
  – Welfare Working group 2012
  – Expert Advisory Group 2013

‘Surely it’s not too hard to see that an overhaul of our taxation/wage system is long overdue’ (EAG, 2012a, p.39).

  – Child Poverty in New Zealand 2014
    “This chapter sets out an integrated approach to the tax-benefit system for addressing child poverty issues.” Boston and Chapple chpt 6
The welfare mess

• The Welfare Mess (St John & Heynes, 1994),
• The Welfare Mess Revisited (St John, 1996),
• Quantifying the Welfare Mess (St John & Rankin, 1998),
• Entrenching the Welfare Mess (S St John & Rankin, 2002),
• Escaping the Welfare Mess (St John & Rankin, 2009)
• Drowning in the Welfare Mess (St John 2014).
• 2024?
• 2034?
Drowning in the Welfare Mess

- Benefit abatements 30-70%
- MFTC 100%
- Accommodation supplement 25%
- Student loan repayment 12%
- Child care subsidies up to 100%
- Working for families 21.5–25%
- Child support 18-30%
Learning from our history

1990/91 The Tax/benefit interface

- Ruth Richardson wanted to do away with all traces of universality
- Welfare was to be only for the poor
- Change team on targeting charged with finding integrated solution to overlapping EMTRs
10 good men and 6 months work

Aim was to find technocratic solutions to tight targeting

- Family accounts and smart cards
- Resolving the EMTR problem?
The EMTR problem (1)
The EMTR problem
Family accounts abandoned late 1991

- Highly complex
- Impractical
- Based on socially defunct core family unit

• But the targeting of 1991 had been predicated this rationalisation!!

• Left with the welfare mess and huge overlapping EMRTS= poverty traps
1991 Budget game changer

Today just 3-4% of those over 65 live in significant and serious hardship compared to 19% of children.

But the old refused to take their medicine.
NZS is non-conditional and not tied to paid work.
What children were most affected in 1991?
Who was left behind?
Why were we not more concerned about those left behind?
Incentives matter more?

“The payment of welfare benefits to families with children who do not work creates a number of potential issues. As it guarantees an income to people not in paid employment, including those with children, it creates incentives not to work. While theoretically indisputable, much debate surrounds how large this effect is in practice, and how best to offset it.”

Boston Chapple chpt 6
But hold on….

- NZS is high enough to remove poverty
- It is a guaranteed basic income
- It should be reducing the incentive for older people to work?
1996: The Child Tax Credit

Figure 1: Maximum real family assistance (1-child family) 1986-2004 ($2004)
Who was left behind?
Why were we not more concerned about those left behind?
The Latest: Children & the Early Years: Our Children, Our Choice: Priorities for Policy Discussion Series

INVITE: ELECTION 2014 DISCUSSION SERIES

Our Children, Our Choice: Priorities for Policy Discussion Series

Part 1: Health - Thursday 16 April
5.30-7pm, St Johns in the City

SAVE THE DATE: NATIONWIDE POST BUDGET BREAKFASTS 16 MAY

Nationwide Budget Breakfast Series:
Friday 16 May

In five main centres: Whangarei, Auckland, Wellington, Dunedin & Christchurch
Then 2005-7 WFF was a great boost to (some) family incomes
But not all families

- Labour took the child tax credit and made it far worse
- Called it the In Work Tax Credit
  - Part of weekly assistance paid to mother
  - Requirement of “off benefit”
  - Required number of hours
    - 20 sole parent
    - 30 couple
Child poverty fell but
Who was left out?
Why were we not more concerned about those left behind?
2004 Analysis
not refuted
Problem - there were two objectives for the In Work Tax Credit

- Reduce child poverty
- Encourage work effort

Does neither well
- entrenches poverty of the poorest
- limited impact on target group
- May allow mothers in higher income families to work less
"The fall in child poverty rates from 2004 to 2007 for children in one-Full Time -one-workless 2 Parent households was very large (28% to 9%), reflecting the Working For Families impact, especially through the In-work Tax Credit." (Perry, 2013):

For those who missed out on the IWTC

"From 2007 to 2012, [The poverty rates were] 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." (Perry, 2013):
Working for Families

Agreement that it is badly designed

• Too complex
• Ineffective in meeting either of two aims
  child poverty reduction
  work incentive
• Only partial indexation

The IWTC should not have an hours of work rule nor an off benefit rule—Boston and Chapple chpt 6
“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.”
What has been the cost to ‘non-deserving’ families

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

$2.25B due the CTC  1996-2006

$3.7 B due to IWTC  2006-2014

$6 Billion and rising
Can the children left out look to the law to protect them from income poverty?

UNCROC ratified 1993

Children have specific human rights that recognise their special need for protection.

…rights include the right to an adequate standard of living, free education, adequate health resources, and legal and social services
Can they rely on their parents getting fulltime work?

- Rt Hon JOHN KEY (Prime Minister): Yes, and I think all New Zealanders would like to see child poverty levels lower. That is why the Government is investing hundreds of millions of dollars in helping people to get off welfare benefits and into work, because full-time paid work is the best way of lifting children out of poverty.

12th Feb 2014 question time
A fair go for all children

• The OCC produced a report in 2008 that seems to have been forgotten
  – Would phase out the IWTC
  – Increase the FTC
  – Improve childcare subsidies

• Universalisation of the IWTC
  – Greens bill 2013
  – 2014 Labour abandons PTC

Now we have
Boston and Chapple June 2014
chpt 6
Why would we look to US solutions?
Figure 1.1b  Child poverty gaps
Gap between the poverty line and the median income of those below the poverty line – as % of the poverty line
(Boston and Chapple, chpt 6)

Have they got an integrated solution?

• They suggest wrap the IWTC up with childcare subsidies into an expanded American style EITC and make it more child-related and more generous with higher rates for older children at the same time as the Family Tax Credit (not work related) is reduced.

• Who would be left out? Whose poverty will be over-looked? How do children fare in disasters/recessions when work disappears?
Don’t trust technocratic solutions to integrate the tax/benefit system
What would be saying if we really cared?

• We stuffed up for 20 years
• Simplistic calls for a universal child benefit will perpetuate child poverty
• Welfare/tax system is very complex
• Need a Royal Commission to sort it out
  – Must be simpler
  – Must reduce Child poverty for all poor children
  – Must draw on women’s experiences
I would suggest

• A return to a more balanced package of targeted and universal assistance is needed

• Remove the double targeting of the IWTC and PTC.

• Improve child care subsidies to help with the costs of working