European countries have been concerned with reforming the labour market and promoting ‘employability’ and are now being asked to set out plans to eliminate child poverty and social exclusion. The experience of New Zealand might well provide an interesting case study. Labour market flexibility was promoted in the early 1990s, assisted by welfare benefit cuts. Family assistance was allowed to fall in real terms, while becoming more tightly targeted and more selective. New Zealand’s child poverty rate rose to unprecedented levels in the mid 1990s from which it abated only slowly as the economy improved. Under the Labour government from 1999, child poverty was at last acknowledged with promises to eliminate it, but spending on families was not increased significantly until 2005. Even then, work incentives were prioritised as the best way to address child poverty. Rather than treating all low income children the same, a significant part of child-related assistance depends on the work status of the parents, and none of the assistance is universal. Thus while the new spending will eventually significantly reduce the incidence of child poverty in working families, those children whose parents fail the qualifying criteria can be expected to slip further below the relative poverty line and experience increasing rather than decreasing social exclusion. Work-related child payments may prove difficult to administer and have low take-up rates, but in a conservative political climate they appear to be the preferred way to augment family incomes.
INTRODUCTION

New Zealand is following the international emphasis on work as the way out of poverty and ‘making work pay’ (OECD, 2004). In this, the experience of New Zealand as it unfolds may be of interest to European countries where the goals of elimination of child poverty and social exclusion may also take a lower level of priority, or are assumed to be best addressed by policies that reward work.

New Zealand’s growing children’s movement reflects not only an increased international awareness that children have unalienable rights as citizens but also a growing appreciation that a failure to invest adequately in children carries high long-term health consequences and economic costs. Child poverty is a complex problem, manifested in New Zealand in many ways such as a high incidence of third world diseases, high rates of child abuse, food insecurity, need for food banks, failure to learn, and a high turnover of families in rental housing with disruption to children’s education (Child Poverty Action Group, 2003; Shaw, Blakely, Crampton, & Atkinson, 2005; St John, Dale, O’Brien, Blaiklock, & Milne, 2001). There are no easy or quick fixes to child poverty but one obvious contributing factor to its growth and severity in New Zealand has been the neglect of preventative measures aimed at supporting family incomes.

The treatment of the young in New Zealand is in marked contrast to the treatment of the old whose relative living standards have been protected by a wage-linked, universal state pension. In contrast to complex targeting for the young, the pension is simple to apply for with minimal residency requirements and no claw-back for additional income except that provided by normal taxation (St John, 2005). Unlike Britain and many other European countries, there has been no universal child benefit in New Zealand since the early 1990s when all family assistance became subject to an income test. In 1996, a new principle for part of the child-related assistance was introduced based on rewarding work behaviour. Ten years later, in 2006, this principle was extended, driving a further wedge between the income support of children whose parents are in work and those on benefits.

In the rhetoric of the ‘third way’, work has been promoted as the way out of family poverty with the state playing an enabling role with selective work incentives and childcare subsidies. At the same time as the rhetoric becomes more strident in demanding work effort from parents almost regardless of their circumstances, work conditions must conform to the relentless downwards wage pressure in the labour market as the pressures of globalisation increase.

It is possible that, even in the face of globalisation, countries retain some choices around social polices, even if only in timing. In the Antipodes, New Zealand’s market reforms imposed family-unfriendly labour market deregulation supported by welfare benefit cuts as early as 1991. Australia, on the other hand, maintained protections for workers, families and beneficiaries for far longer and as a consequence did not experience the rapid rise in child poverty seen in New Zealand. While, by the mid-2000s, Australia was also travelling down the same path of labour market and benefit reform, family assistance policies in that country have remained focused on the needs of children rather than the source of their parent’s income and work participation (McClelland & St John, 2006).

1.1 Child Poverty in New Zealand

This paper sets out the origins of family assistance in New Zealand and changes over time, and provides an indicative analysis of how low-income families have fared. Problems of entrenched child poverty reflect the failure to adequately inflation-adjust assistance, the effect of complex targeting on take-up rates and the new emphasis on making a considerable part of the child-related weekly assistance dependent on work status.

The poverty measurement issues in New Zealand are not reviewed in detail here as a full discussion can be found elsewhere (Perry, 2004, 2005; Stephens, 1999; Stephens, Frater, & Waldegrave, 2000). While there is no official poverty line in New Zealand, the government has typically used a 60 percent of the net-of-housing costs equivalised disposable median

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3 The Employment Contracts Act in 1991 saw wages in casual retail and service industries fall relative to wages in other industries, and in real terms (Dixon, 1995). As the majority of workers in these industries, women, and thus by implication their children, were disproportionately affected. Overall, real wages fell in the first half of the 1990s, before rising again. By 2000, however, they had barely recovered to the level of the early 1980s (Dalziel & Lattimore, 2001).
family income. Figure 1 shows the sharp deterioration in child poverty in the 1990s followed by an improvement during the 2000s due largely to an improved employment situation. Even so, one in five New Zealand children remain in poverty on this measure, and children in sole parent households remain particularly affected (Perry, 2005). Moreover, this poverty line is benchmarked to the 1998 median and thus does not reflect real growth in living standards. As median incomes rose strongly in the 2000s, a poverty line based on the current median, when it becomes available, will almost certainly show a higher incidence of relative child poverty.

Income Poverty line measures have their limitations as indicators of hardship because they do not pick up on a range of contributing factors. An independent index of living standards, the Economic Living Standards Index (ESLI) developed by the Ministry of Social Development showed that between 2000 and 2004, despite the economic recovery, the percentage of children experiencing severe or significant hardship rose from 19 to 26 percent. The children facing the most serious deterioration in living standards were predominantly in families supported by benefits, with an over-representation of Maori and Pacific Island families, and those in state-rented accommodation (Jensen, Krishnan, Hodgson, et al 2006).

The ESLI is a comprehensive measure of poverty as it allows for the impact of environmental factors such as the lack of ownership of assets, poor health and life shocks. Classifying severe, significant and some hardship categories as ‘low living standards’ the study found that 38 percent of New Zealand children were poor on this measure. In contrast, the percentage of those over 65, in these categories remained virtually unchanged at only 8 percent. (Jensen, Krishnan, Hodgson, et al 2006).

1.2 Analytical framework: the core policy dilemma

The goals of securing income adequacy for children and promoting work incentives for the parents may involve significant trade-offs. Policy packages in different countries may vary both in terms of the relative weight given to these two potentially conflicting policy goals,
as well as in the technical design of policies and their effectiveness in meeting these goals. For instance, many European countries place more emphasis on income adequacy for children than does New Zealand, and have experienced much lower child poverty as measured on an internationally comparative basis (UNICEF, 2005, p4).

Normative criteria may include work for its own sake as a desirable objective, but this would require a focus on more than just parents. For our purposes here, the key goal is to ensure that children have access to sufficient resources to prevent poverty. If measures to reach the poverty objective rely on work incentives, they need to be designed appropriately and be shown to be effective both in theory and in practice. Technical criteria around policy design of income supplements for children may also include: impact on effective marginal tax rates, equality in the treatment of children in families of different structures, work status and race; security of income; simplicity and effective uptake.

The Labour government signalled significantly increased spending on families in the 2004 budget, but there was no clear prioritisation given to ending child poverty. The balance was to favour work incentives over direct provision for the poorest:

*Whilst it is true that Budget statements alluded to the goal of reducing poverty, the overriding message the government wished to convey in outlining the Working for Families package was the need to provide incentives for families with dependent children to enter and remain in the workforce. This we believe is the most effective way of reducing poverty.*

(Mallard, 2004)

2 BACKGROUND TO FAMILY ASSISTANCE IN NEW ZEALAND

New Zealand once enjoyed a reputation of being the Sweden of the South Pacific with a ‘cradle to grave’ welfare state. In the late 1930s, a universal public health system, universal pensions and free state education were introduced along with a weekly family benefit for the third and subsequent children under 16, and state-funded maternity benefits.

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4See also Nolan (2002), St John & Craig, (2004).
In 1946 the Family Benefit became fully universal and was paid at the rate of 10 shillings per week per child.\textsuperscript{5} Beaglehole (1993:10) noted that:

\begin{quote}
A woman with two children received the equivalent of at least a full day’s pay for a labourer as benefits, unlike wages, were not taxed. Most women received more as the average number of children born to mothers in the 1950s was 3.4.
\end{quote}

However in the post-war period the Family Benefit was not indexed and the changes that were made to it were insufficient to maintain its purchasing power. Relative to average wages, its value declined from around 8 percent of the average wage at the end of the war to about 3 percent by the early 1980s. It remained unaltered at its 1979 level until it was finally abolished in 1991 when it represented less than 1 percent of the average wage.

Family Support, introduced on 1 October 1986 amalgamated several existing rebates and family payments to provide a weekly refundable tax credit based on joint parental income and the numbers of children (St John, 1994). One of the important underlying rationales for this change was that all children would be treated the same regardless of whether the source of parental income was low wages or a benefit.\textsuperscript{6}

In 1990, the newly elected National Government announced that social security benefits would be cut from April 1991. It was also intended that the state pension be changed into a welfare benefit, but the political lobbying of the elderly was successful in preventing this attack on their living standards. Families with children on benefits were not so lucky: they had a decrease of up to $27 a week representing a severe decline in disposable income (Stephens, 1992). Labour market flexibility was also promoted in a raft of labour market reforms in the Employment Contracts Act 1991, as the economy was readied for more competition and economic restructuring. User pays policies in health and education were introduced with the emphasis firmly on individual responsibility, choice and the work ethic and away from notions of a universal welfare state (Boston, Dalziel, & St John, 1999).

\textsuperscript{5} The Family Benefit in the 1940s was often enough to pay the rent.
\textsuperscript{6} Family Support is paid to the primary caregiver. It is administered by the Department of Inland Revenue and paid weekly on the basis of estimated joint income or as an end-of-year lump-sum adjustment once all annual
As part of the reforms to the welfare state which undermined universality and emphasised income testing, the universal Family Benefit was amalgamated with Family Support, and the entire amount subject to abatement (Boston & St John, 1999). In the early 1990s there were some small adjustments to the dollar amount of Family Support for additional children and older children, along with a small rise in the threshold for abatement.

2.1 New principles for family assistance: 1996

Between 1986 and 1996, all children from low-income families received Family Support on the same basis so that all children were treated the same. The 1996 budget however introduced a new concept for family assistance through a raft of measures under the banner of Family Plus. The most significant of these was the Child Tax Credit initially known as the Independent Family Tax Credit. The name revealed its ideological underpinnings as assistance was restricted to families ‘independent’ of the state. As with other aspects of Family Plus, which include a Parental Tax Credit and a Family Tax Credit (of minor importance and not further discussed here), to be eligible, neither parent could be receiving an income-tested benefit, the state pension, a student allowance, or accident compensation for more than 3 months.

The Child Tax Credit was similar in all respects to Family Support except with regards to eligibility. One valid way to interpret the 1996 changes is that the families who qualified for the Child Tax Credit were effectively given a catch-up for past inflation of $20 per child. This partially, or for large families, fully, restored the real maximum value of Family Support. Figure 2, for a one-child family, illustrates the catch up in 1996 and the subsequent erosion in real value of family assistance since full implementation of the Child Tax Credit in 1998.

Approximately 30 percent of children, around 300,000 children, did not qualify for the Child Tax Credit and thus, received only the $5 increase in their Family Support as illustrated in

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income is known. If Family Support has been overpaid because actual joint annual income turns out to be higher than estimated, repayments are required.

7 The number exceeds the numbers supported by a main benefit because the children of those on a student allowance, NZ Superannuation, ACC and others who fail to apply have also been excluded.
To complicate matters, entitlement to the Child Tax Credit was only for the days of the year that the parents were both ‘independent’ from the state. Families in and out of the benefit system were unlikely to receive full access to their entitlements, as official concern around take-up rates demonstrates:

Another worrying trend is that fewer families are claiming family assistance than we would expect. The system of tax-based family assistance does not link well with the benefit system. Without help of this type, it is difficult for people to move in and out of work without falling into the poverty trap of benefit or tax debt, sometimes both. (Ministry of Social Development, 2001: 14)

2.2 The purpose of the Child Tax Credit

The Child Tax Credit operated for the decade to 2006 as a crude labour market tool, based on the idea that it is important for people in work to be better off than those on benefits. It applied selectively, however, as only those with children were entitled to it. If a genuine incentive to work was intended, excluding the childless is hard to explain. It is also difficult to explain why a work incentive should be related to the number of children especially when a separate dedicated subsidy already exists for childcare.

Because low wages are so low it is possible to give examples of how some parents in work are worse off unless there is something like the Child Tax Credit in place. But numerous criticisms of its usefulness as a labour market incentive can be mounted (Child Poverty Action Group, 2002; St John & Craig, 2004). To begin, the Child Tax Credit rewarded independence from the state, not extra hours worked. It was complex for parents to understand and difficult to administer. The criteria were crude and discriminatory, for example a child may have been denied $15 per week simply because one parent was old or disabled, or a student.

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8 By denying a meaningful inflation catch-up in this way to these poorest families, the government saved over a cumulative $2 billion between 1996 and 2005.
9 See for example the Issues Paper for the 2001 Tax Review (McLeod, 2001).
In contrast, the Australian system does not have any per child tax incentives for working families alone. Canada abandoned child-related payments based on work status in 1999, seeing them as discriminatory, and failing to promote social cohesion. The UK has a working tax credit but it is for all workers and not related to the numbers of children, while in the US the Earned Income Tax Credit is tailored to reward extra hours of work. Rather than using the crude tool of a ‘per child’ lump-sum payment, work incentives can be improved by a tax rate reduction, or a reduction in the abatement of family tax credits. This later approach was taken in Australia when the rate of abatement of family assistance was reduced from 30 percent to 20 percent in 2004.

In 1996, while in opposition, the New Zealand Labour party publicised its intention, if elected, to amalgamate the Child Tax Credit with Family Support, so all children would be treated the same again. The parliamentary records of the time are replete with examples of Labour politicians railing against the unfairness; this from the Hon Annette King:

“..it isolates beneficiaries from other families - treats them like lepers and worst of all it treats their children differently - what is different about a beneficiary child? Does that child look different when she or he goes to school? Yes, that child probably does look different because of the circumstances of the family—but also the government wants everyone to know that he or she is different.”(Hansard, 1996)

It was remarkable, therefore that the Child Tax Credit was ignored by the new Labour-led Government in 1999. Family assistance remained unchanged and unindexed despite intensive lobbying, until the 2004 Budget signalled changes for 2005-2007. Even more remarkable the Child Tax Credit was replaced in 2006 with an arguably even more discriminatory measure, the ‘In-Work-Payment’ as discussed below.

3 WORKING FOR FAMILIES: THE 2004 BUDGET

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10 Canada however has adopted some of the extremes of the work first approach with deleterious effects on child poverty among lone parent families on welfare (Evans, 2005).
The 2004 budget package ‘Working for Families’ introduced a raft of improvements for families such as increased housing supplements and childcare subsidies. Its major thrust, however, was to improve weekly financial assistance, with substantial new spending for working families.\textsuperscript{11} The gains are to be phased in over three years between 2005 and 2007, with partial price indexation to all aspects to apply from 2008.

The arguments against the Child Tax Credit clearly fell on deaf ears with a new, more complex ‘In Work Payment’ replacing it from 1 April 2006. Compared to the Child Tax Credit of $15 a week, the In Work Payment at $60 a week for families of up to three children represents an increase of 300 percent for one child, 100 percent for two, and a 33 percent for three children. There is an additional $15 a week more for the fourth and subsequent children. The impact of the In Work Payment, especially for smaller working families, is highly significant as Table 1 shows, but potentially divisive. Furthermore, it may weaken any firm commitment to eliminating child poverty in beneficiary families over time.

\textit{As a Labour-led government we have been committed to work (and increasingly skilled work) as the primary means of giving families a stake in the economy. (Cullen, M. Minister of Finance, 2005)}

As the package was announced, working families earning more than $27,500 per annum stood to pay a price for their extra support because they faced very long income ranges over which extra money earned did not make much difference to a family’s disposable income (Nolan, 2004). For example, if a family on an income of $38,000 earned an extra $1000, they could lose $330 in tax, $300 of Family Support including the In Work Payment, $100 in student loan repayments (if applicable) and $12 in Accident Compensation levies. This left only $258 in the hand, implying an effective marginal tax rate (EMTR) of 74.2 percent. In addition there could be other imposts that added cumulatively to the EMTR, such as child support payments, abatement of the accommodation supplement and childcare subsidies. These high EMTRs can be assumed, a priori, to provide a significant disincentive to earn extra income.

\textsuperscript{11} The background to the Working for Families package is found in Cabinet papers (Ministry of Social Development, 2002-2004).
Thus one of the ironies of the Working for Families package was that in the government’s determination to provide a large gap between being in work and being on a benefit in order to create incentives to work, the problem of poverty traps had just been shifted up the income scale. In other words, to create the incentive for the poorest to work, not only must welfare benefits be impoverishingly low, but when parents are rewarded for working a given number of hours with a lump of money, any extra work effort is heavily penalised. Additionally, in time of economic stress, loss of work-related child payments doubly punishes parents thrown out of work, while the costs of providing for their children are unlikely to reduce.

3.1 The In-Work-Payment

In practice the features of the In Work Payment are similar to the Child Tax Credit with confusing policy goals tangling up child-related income security with workforce participation. The Child Tax Credit was paid to low income families with children primarily because they worked, not primarily because they had, as the name suggests, needy children. The In Work Payment mixes up child poverty-targeted income goals and work policy incentives by paying the work incentive to the caregiver of the child (who may not be ‘in work’) not the worker. This is an important contrast to the working tax credit in the United Kingdom, which is much more clearly related to work, not children, and is paid to the worker. Moreover, the In Work Payment, like the Child Tax Credit is simply added to Family Support and abated last. In the United Kingdom, the working tax credit is abated first to emphasise its purpose in encouraging the transition to work.

But the In Work Payment does differ from the Child Tax Credit in ways which will add further to negative effects on poor families. Perhaps in order to reinforce the perception that the new In Work Payment is not just the old Child Tax Credit and is more clearly a work incentive, claimants must now meet the weekly work criteria of 30 hours for a couple and 20 hours for a sole parent.

The work test is especially harsh - arguably even discriminatory - for sole parents. A two-parent family can have one full-time caregiver at home while the other works just 30 hours. Thus out of a possible working week of 80 hours, this family has joint 50 hours of care giving and 30 hours of work. The sole parent has only 20 hours of care giving and 20 hours
of work. Nor is the work test related to the numbers or ages of children, yet a sole parent with three young children is likely to find it far more complicated, and even inappropriate to work than a sole parent would with one child.

Families in financial poverty often suffer the double disadvantage of being time poor, especially sole parent families where the one parent available usually needs to do the caring work of two. Here, wider shifts in social expectations which stress the value of paid work weigh especially heavily on sole parents. Ironically, the In Work Payment makes it easier for one parent to stay home where there is a full-time breadwinner, while essentially implying that a sole parent should work at least 20 hours a week, no matter what their children’s needs or how many children they have.

The rules of independence from a state benefit are the largely the same for the In Work Payment as for the Child Tax Credit. The worst case of exclusion for ‘workers’ on accident compensation has been removed, but only for those who have an accident after 1 January 2006. Likewise, parents on the state pension can now get the In Work Payment but only if they meet the required numbers of hour worked. The discrimination remains for children in families receiving student allowances as well as those on sickness, sole parent and unemployment benefits.

The In Work Payment can be increased every three years by regulation (an Order in Council) raising the concern that when future governments desire to redistribute to families, they might prefer to do so by adjusting this payment, rather than increasing Family Support for all low income families. This would further reinforce the discrimination against those who cannot receive the In Work Payment.

3.1.1 Human Rights Implications

The New Zealand government clearly recognised the Human Rights implications of the Child Tax Credit and the approach taken by the 2004 Budget.

... the Working for Families package raises a number of issues of inconsistency with the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993.

(Ministry of Social Development, (2002-2004), May-04, p24 )
It was acknowledged that:

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\text{The rationale for the structure of existing incentive measures is unclear. The fact that the Child Tax Credit combines a work-related support with child-related support can cause confusion, it can tend to distort the debate about the level of support that should be provided for particular purposes and makes it difficult for the government to send clear messages about the purposes of particular forms of assistance. For example advocacy groups have criticised the fact that the Child Tax Credit is only available to working families on the grounds that it discriminates against children in households on benefit.}
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(Ministry of Social Development, 2002-2004, May-03, p 22)

The discussions around the introduction of the In Work Payment reveal that it was hoped that by changing the name so the word ‘child’ does not feature, and by making the rate less conditional on the number of children, the In Work Payment would be seen as a work incentive, not a means of providing income adequacy and relieving child poverty.

In 2002, government policy itself became subject to review under the Human Rights Act and so the Child Poverty Action Group (CPAG) asked the Human Rights Commission to investigate the legality of the Child Tax Credit, given its highly discriminatory character (Child Poverty Action Group, 2002). The legal history of this groundbreaking case, that is finally due to be heard in late 2006, can be viewed at [www.cpag.org.nz](http://www.cpag.org.nz).

### 3.2 The 2005 election

The Working for Families package did signify a real attempt to begin to redress the neglect of family assistance over the past two decades (see Table 1). However it was clear that the price paid by working families was to be high effective marginal tax rates over long income ranges. In the meantime, the 2005 election had intensified calls for general tax reductions in light of apparent budget surpluses. Amid controversy, and just prior to the September election, the government suddenly announced that Working for Families would be significantly extended. The improvements reflected sensitivity to the criticism that low and middle-income working families faced significant disincentives to work, rather than the reward intended. Government also sought to deflect the criticism that working people deserved tax cuts.
Originally, in 2006, one threshold of $27,500 was to replace the former two with abatement at 30 percent from that level. The pre-election changes saw this single threshold raised to $35,000 as shown in Table 1, and the rate of abatement reduced to 20 percent, at a total cost of $500m per annum.

These changes signalled a technically more rational approach to improving work incentives than the In Work Payment, but the opportunity to reduce or abandon the In Work Payment was not taken. This large pre-election inducement of a 30 percent increase in an already expensive package would have no impact on very low-income families, driving an even bigger relative income gap, while at the same time likely to preclude any extra fiscal expenditure on these families for some time to come.

4 THE REAL VALUE OF FINANCIAL ASSISTANCE 1986-2008

Since reforms in the 1980s in New Zealand, family assistance has been simply the annual amount received by a family on a given income in the form of Family Support, Child Tax Credit and, prior to 1991, the Family Benefit. Real assistance fell both because ad hoc adjustments to the level of maximum assistance did not fully compensate for inflation, and because as wages rise with inflation, a fixed threshold for abatement resulted in reduced entitlement.

Once Working for Families is fully implemented (year ended March 2008), the maximum Family Support for the one-child family is back to where it was in 1986, while larger families gain slightly in real terms (St John & Craig, 2004). From 2006 there is significant real distribution to low and middle income working families who get the In Work Payment and who have gained entitlement at much higher levels of income. These gains will have a large impact on the hardship of these families and on the severity of child poverty among working families. Overall, child poverty is expected to fall by 30% by 2008 (Perry, 2004).

A much bigger gap has opened up between families ‘in work’ and those not ‘in work’ because of the ‘In Work Payment’ and because of changes to benefits introduced along with Working for Families. In 2003 approximately 29 percent of children under 15 (253,000 children) lived
in families supported by a main social welfare benefit (Ministry of Social Development, 2004). While the real value of their Family Support will be restored by the year ended March 2008 to its former 1986 value, their actual gain has usually been far less. First, there was an adjustment that removed the child-related component of many of the core benefits in 2005. This had the effect of significantly reducing the gains from extra Family Support. Families supported by a welfare benefit then received nothing at all in 2006 and will gain a mere $10 per child per week more in 2007 (St John & Craig, 2004).

Second there have been changes to supplementary assistance, especially affecting the over 80 percent of all children supported by a benefit who live in sole-parent families. Many of these families have been unable to survive on the core benefit alone, and have also received a means tested top-up called the Special Benefit to recognise essential commitments that they are unable to meet from their income. Just over 50 percent of Special Benefit recipients live with at least one dependent child under the age of 14, and 90 percent of these are sole parents.

The declining value of Family Income Assistance is contributing to increasing use of Special Benefit. Instead of last resort assistance to a small minority of beneficiaries to alleviate financial hardship, Special Benefit is increasingly becoming a general income top-up

(Ministry of Social Development 2002-2004, Mar-04, p9)

In the changes under the Working for Families package, increases in Family Support become part of a family's income for determining the amount of Special Benefit. From 1 April 2006 this was replaced by a new, less generous, Temporary Additional Support payment (Child Poverty Action Group, 2002; St John & Craig, 2004). The estimates of cost saving in core benefit and Special Benefit are $237m by the year ended March 2008 (Ministry of Social Development, 2002-2004).

In defending these changes the government argued that once the increase in Family Support is taken into account no family would be ‘worse off’. In a time of greatly improved real redistribution to low income working families, to be simply ‘no worse off’ in nominal terms increases social exclusion and entrenches the relative poverty of the poorest children.

...although Family Support increases do not apply until April 2005, great care was taken in developing Working for Families to ensure that nobody
was worse off as a result of the changes (Mallard, 2004).

5 THE EFFECT OF TAKING A WORK INCENTIVE APPROACH TO POVERTY
The changes announced in the 2004 budget and the subsequent generous pre-election extension represent a real redistribution and a significant reduction in child poverty for working families. The picture for those who fail to qualify for the In Work Payment is far less impressive. While these families appear to have their Family Support restored to the 1986 position, the offsets to the core benefits reduce this gain, compounded by the changes to the Special Benefit. There is no compensation for benefit cuts in 1991 or the lost income since 1996 when these families were denied the Child Tax Credit which was part of the inflation catch-up in Family Support.

The In Work Payment fails to meet any of the criteria for good technical design. While it is no longer closely tied to the number of children, the presence of children is a condition of its receipt. It drives a large wedge in family assistance between families in work and those on benefits by treating children differently depending on the work status of their parents. It is discriminatory in outcome for families of different structure, treating sole parents more harshly than two-parent families through the hours of work criterion. The Maori and Pacific Island population of New Zealand are also disproportionately disadvantaged as they have a younger demographic structure and a lower socio-economic status (Wynd, 2006). Thus it can be argued that, in effect, the In Work Payment treats children of different races differently. New research has shown these ethnic groups in poverty had also already experienced a much larger decline in their living standards between 2000 and 2004 than the rest of the population (Jensen, Krishnan, Hodgson, et al 2006).

The In Work Payment will be hard to administer and compliance for low-income families will be complex. If, and when, jobs are lost in the next recession, or sickness threatens, a sharp drop in living standards for children whose parents need to access a main benefit can be expected. Thus it fails the security of income criterion as the welfare state increasingly serves as a minimal subsistence backstop rather than a social insurance safeguard. Over time, the danger is that real increases in work-related child supplements are achieved at the expense of real increases in Family Support and the focus on reducing child poverty is lost.
The effectiveness of the In Work Payment as a work incentive in practice has yet to be
evaluated, but in principle it is hard to see that a lump-sum payment based on minimum hours
worked is capable of influencing extra work effort for most families. Even if it did provide a
work incentive, suitable work has to be available and families have to have the capacity to
take up that work. If these conditions are not meet, it would seem a highly uncertain
mechanism to rely on to cure child poverty.

It might be argued that growing income disparities and the rise of social exclusion are an
inevitable consequence of economic reforms designed to enhance international
competitiveness. But the treatment of the young in the New Zealand welfare system is in
stark contrast to the treatment of the old who are entitled to universal, wage-linked
pensions at age 65 regardless of employment status, income or wealth (St John, 2005). As
a consequence, the relative living standards of the elderly have been protected, suggesting
that there is nothing inevitable about the growth in poverty and there are real choices about
distribution to be made.12

The difference in treatment reflects the enhanced electoral power of the growing number of
voters over 65 and political sensitivity to that power (St John, 1999). The rhetoric of work
has never been applied to this group, but ironically, the pension does not act as a marginal
work disincentive as there is no claw-back of the pension for additional income except that
provided by normal taxation. In contrast, as this paper discusses, work-related income-
tested child supplements are crudely designed work incentives which are difficult to
administer and may have worryingly low take-up rates.

6 CONCLUSION

Conservative pressures around the need to promote the work ethic have been increasingly
accommodated in New Zealand, while the plea not to exclude the poorest children has
fallen on deaf ears. One of the lessons of the ten years since the Child Tax Credit was
introduced is that once the principle of treating all children the same regardless of parental

12 Using the 60% net of housing costs definition of the poverty line, 51.2 percent of economic units
supported by an income-tested benefit are in poverty but only 7.6 percent of those reliant on the state pension
(Perry, 2005).
income is lost, it can be very difficult to reinstate. In turn, while measured child poverty rates fall for working families with increased real redistribution, the poverty of the poorest becomes more stark and more entrenched.

If the ultimate goal is to reduce child poverty, the task is to find the most effective balance between raising the level of income support for low-income families independently of work status, and the more indirect approach of work incentives. Finding this balance may require a more nuanced approach than is currently the case in New Zealand. It might be one, for example, that pays more attention to the lower capability for work that face many parents, reflecting the parent’s health, the numbers, ages and health of their children, and the availability of suitable work and childcare. Reliance on work-based child income supplements to create a gap between those on benefits and those in work may have to be abandoned in favour of a more consistent and rational technical design. It should be interesting for other countries to observe the experience of New Zealand as these issues are played out in the coming years.

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