Child Poverty Action Group
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Let’s take as a given that we are a very unequal society, that child poverty is very high and damaging.

Most of what I am reading points to us becoming ever more unequal over the next 20 years.

We should not be surprised. The work of Thomas Piketty in *Capital in the Twenty-First Century* (2014) has shown that the share of national income going to wages and the share to capital has shifted drastically in favour of capital.

Those who own human and other capital can generate an income that allows exponential increases in wealth accumulation. Inheritances help create wealthy family dynasties- see the rich list for the New Zealand experience.

It is not good enough to think how much people have at the top does not matter and concern should be largely about poverty.

In the absence of strong unions low income workers see ever poorer working conditions and exploitation. All the time they may be going into debt, and debt compounds just as wealth compounds. We see nightly on the TV stories of how low income families are borrowing to pay interest at incredibly high interest rates on past borrowing. The latest data show that the wealth of the rich has doubled since 2014. This is a compound annual rate of increase of 7%. Where will we be in the next ten years as debt compounds at the bottom and wealth at the top doubles again.

We need to recognise that the fortunes of the top end and those at the bottom are intimately connected. As savings grow the wealthy have to put them somewhere so a lot gets recycled to low income households at high interest rates. The rich have to lend to get returns on their excesses and the poor have to borrow to live. Incestuously the borrowing of the poor sustains the spending in the economy that generates the profits that adds to the inequality and so it goes. A veritable house of cards.

In the meantime there are powerful voices in New Zealand to say that passive income-like interest income should be tax more lightly than other income. The Financial Services Council claim 78% of New Zealanders feel overtaxed, see *Please cut the taxes on my saving*. They want special
treatment of savings in KiwiSaver that will help make the rich richer at the expense of the low paid and general taxpayer. Any attempt to tax capital more such as with a capital gains tax will be fiercely resisted.

My observation is this. In the past 6 years as the economy has struggled. Children have had a very, very tough time. We find there are 205,000 children below the lowest 50% poverty line. Their parents are the ones who: line up at foodbanks and welfare agencies; face bleak choices such as whether to heat the house or pay for the child’s medicine; go to a loan shark when the washing machine breaks down; can’t afford to maintain their cars or go themselves to the doctor when sick. Their children overload the hospitals with preventable third world childhood diseases, often suffering neglect and malnutrition and stunted life opportunities. NZ seems to be quite accepting of becoming a world vision society, relying on a patchy philanthropy to cure child poverty.

At the same time there is a lot resentment towards anyone reliant on any kind of state benefit except of course NZ Super.

My contribution is to offer three suggestions and talk in particular about the first tonight

   a. Support the programmes of redistribution we have and strengthen them.
   b. Immediately improve social spending on health/education
   c. Reform the tax treatment of property

   a. Redistribution
The NZ tax system is not very progressive. Compared to Australia where there is an $18,000 income exemption and a top rate of 45%, the NZ tax structure is very flat and is accompanied by GST at a high rate (15%), and unlike Australia where the rate is 10%, there are no exemptions for basic necessities. It may be a good system but if so, we must accept there is a pressing need for large, redistributive income payments make the over-all system progressive and fairer.

Apart from welfare payments the two biggest programmes are NZ Superannuation (NZS) and Working for Families (WFF). Without WFF and NZS, inequality would be very much worse but clearly we do so much better for the old than children. Can we learn from NZS?

New Zealand Superannuation
NZS is a great equalising tool. Why has it been so successful? First reason is that the old were well organised in 1991 when Ruth Richardson wanted to make their superannuation into a welfare benefit. They resisted their medicine. Not so the young who were casualties of the 1991 reforms.

Second, it is inclusive. Everyone gets NZS at age 65 subject to a minor residency test. The payment is unconditional, simple, and based on the individual not on a partner’s earnings. You don’t get less because your partner earns more. It is not conditional on contributions to the paid workforce.

Thus it is a very good for women. It helps to reverse the feminisation of poverty during working age period that arises when women bear the brunt of caregiving roles. Women can also find earning power severely diminishes in the aftermath of domestic violence. They tend to be left behind when social provision such as KiwiSaver/paid parental leave/child payments are tied to paid work. We need to celebrate NZS.
Third, no-one checks to see old people are spending NZS well, ie not on bingo/casino or alcohol. No-one peers into their bedrooms to see if they are in a relationship and puts them in jail if they have been getting the wrong rate of NZS and makes them repay every penny as happens all too often in the welfare system for sole parents.

Fourth it is set at an adequate level. Poverty rates of the old are far less than those for the young. Critically it is indexed to wages and not just to inflation. But there is a key problem with NZS. It should be taxed more progressively- universal pensions and a low top tax rate don’t go together.

![Graph of NZS payments over time](image)

**Working for families (WFF)**

WFF is a much less successful programme but I shudder to think what NZ would be like without it. Some want to sneer at it as saying it is a subsidy to employers. We didn’t say the massive tax cuts for higher income people in 2010 were a subsidy to wages. We don’t say NZS is a subsidy to employer who should have provided for their workers superannuation. WFF delivers back tax revenue in a targeted way as tax cuts for low income families in a way that reflects household size.

WFF recognises the costs of children for those on low incomes without breaking the bank as would a universal payment. It puts a concentrated amount of money into low income families and has reduced child poverty. It goes to the mother, mostly, as a weekly amount for the children.

It has many problems. Lots of it is highly conditional on paid work, complex and badly indexed. It is based on a deeply ingrained view that paid work, and paid work alone is the answer to child poverty. How very 19th century! Yet the sheer impossibility of many poor families achieving reliable full-time paid work, especially sole parents or households experiencing sickness and disability, leads to the inevitable consigning of these families and their children to poverty.

Is a universal child benefit the answer to today’s chronic child poverty? We have over a million children and a meaningful universal benefit would cost too much. Replace WFF with $100 a week per child for every child? Cost would be $5 billion but worse, it actually makes a large number of the poorest families worse off than now. Wealthy families, say with 2 children would get a windfall of $10,000 tax free.
We need to understand what we have got wrong in WFF policies and why it fails our poorest children.

Major components of Working for Families, namely the In Work Tax Credit,(IWTC), the parental tax credit for new-borns and the minimum Family Tax Credit top-up, have been denied to the poorest families when they are on any benefit or student allowance, or they simply fail to meet the hours of work required.

While all low income children qualify for the Family Tax Credit, a per child weekly payment to the caregiver, they are not entitled to the IWTC, worth $60 a week for one to three children and an extra $15 per child for larger families unless two stringent tests are met.

The first test requires 20 hours of paid work a week for a sole parent and 30 hours a week for a couple. This anachronistic rule has never been reviewed in light of the nature of the modern, just-in-time, casualisation of the low end of the labour market. Business leaders ought to be raising questions about the design of this policy. Families that don’t meet the hours of work in any period can be chased for any over-payment, making many families very vulnerable. There is no recognition that the needs of the child don’t change when parents are sick or lose hours of work in a recession or following an earthquake or flood.

The second test for the IWTC is that a parent must not be on any kind of benefit, or student allowance, even if working part-time. No matter what work incentive is offered, most parents with young children in the benefit system, cannot work full time either because they or their children are sick, disabled or chronically ill, or they have care-giving roles, or there is no work available.

The impact of this discrimination has been felt disproportionately by Maori and Pasifika children. As the MSD notes in the revisions to the figures:

... on average over 2010 to 2012, using the AHC 60% fixed line measure, around 17% of European/Pakeha children lived in poor households, 34% of Maori children, and 34% of Pacific children (double the rate for European/Pakeha children). (Perry, 2014)

New Zealand has been very cavalier in ignoring that the poorest children are denied the protections of the UN Convention on the Rights of the Child. We have signed this convention that states all children have a right to social security and that the Government has an obligation to implement measures necessary to achieve full realisation of that right.

What should be done to turn around the terrible statistics on child poverty? Child poverty is not a party political issue; it is a moral and ethical issue. As Bryan Bruce says in his award-winning documentary, Inside New Zealand Child Poverty, "We are good people. We can fix this... If we want to."

First we must treat all low income the same. Once the hours worked criteria and the off benefit rule are removed, the IWTC becomes just an addition to the Family Tax Credit.

Child Poverty Action Group says the simplest most cost effective thing to do is to add the $60 the first child rate of the Family Tax Credit, and an extra $15 for the 4th and subsequent children. That
way the extra payment goes to the families that are poorest and need it most, and the expense (around $450m per annum) is confined to this group alone. There is much more that needs to be done but until we get this right we will be tinkering around the edges.

We then need public support for WFF- proper adjustments to all part of it—Government is actually cutting it back where it is needed most by failure to adjust the income level at which the maximum WFF applies. The IWTC has never been adjusted for prices, let alone wage growth. Let’s ask our politicians in election year to support children and families properly as one way to help stem the tide of growing inequality.

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