Let’s take as a given that we are a very unequal society, that child poverty is very high and damaging. Actually the effects of recession are worse than we thought — 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 word childhood diseases, often suffering neglect and malnutrition and stunted life opportunities.

But I don’t want to waste this opportunity to argue over the poverty figures or bemoan how excessively rich the rich are and how terrible it is for those in poverty. We know enough. It is time to see what we can do about it.

CPAG is a national organisation that seeks to promote systemic policy changes to eradicate child poverty, which means of course family poverty because the parents are affected too. We accept that some private charity will always be needed, but deplore the way in which NZ seems to be quite accepting of becoming a world vision society, relying on a patchy philanthropy to cure child poverty. What is needed is a proper analysis of what works in a modern world. I think we base our solutions far too much on the 19th and 20th century way of thinking at the expense of the poorest children.

So what has changed? In a word, technology. It is now far easier to produce material things than it was and labour is not so much a major component of output. The challenge we face is how to ensure that everyone gets enough of a share of the greatly enhanced output in a world where...
demands for unskilled and semi-skilled labour has fallen. To get income solely from wage labour
denies the sharing of the fruits of technology. The connection of getting income to provision of
labour may still be close in the service sector: in looking after aged elderly or cleaning an hour of
work is rewarded with an hour of wages, but for many of us that connection is already broken. It is
especially broken when we think of the remuneration packages of CEOs and many businessmen.
What is hard for those raised on the puritan ethic of work is to understand the 21st century
demands a new ethic for the sharing of output.

The work of Thomas Piketty in Capital in the Twenty-First Century 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. Those reliant on wage labour see ever poorer working
conditions and exploitation. All the time they may be going into debt, and debt compounds just as
wealth compounds.

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.

My contribution is to offer three suggestions

   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. Red distribution

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 there is a pressing need for large, redistributive
income payments make the over-all system progressive and this fairer.

The two biggest programmes are NZ Superannuation and Working for Families. Without WFF and
NZS, inequality would be very much worse so we need to understand and support what is good
about these programmes. 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 he old were well
organised in 1991 when Ruth 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. Break connection between contributions to paid work and receipt of a basic income.

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.

Fifth it breaks the link between work and getting a basic income thus allowing all forms of work-voluntary/paid and unpaid to flourish.

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.

**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. 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 below the median income and so help lift families relative to the median and 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 paidwork, 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.

Boston and Chapple say all children ought be given the opportunity to thrive. Not just the ‘deserving’ children whose parents have jumped through enough work tests. Why then did WFF leave put the poorest children?

Remember when all children got the universal Family Benefit?

By 1946 the family benefit was a significant universal weekly payment for all children, and despite much resistance, Maori, illegitimate, and children in deserted families were included. Thus policy
on the Family Benefit was very inclusive and egalitarian and accounts suggest it was greatly important for the well-being of all children.

The Family Benefit put money in the hands of the mother. It was not a tax relief, nor was it a tax credit to be demanded back from her at the end of the year because he earned more than expected, as may happen today. She controlled it on separation, and it was often the only money she had of her own. It was seen by mothers as a direct, unambiguous cash tribute to their ‘working’ role at home. The Minister of the time said “We have to create such enthusiasm for the service the mother renders, that it will be lifted to the highest pinnacles of service in the nation.”

Today in policy rhetoric a mother is valued only for the paid work she does, not the work of procreation, nurturing, mentoring the young lives she is entrusted with.

But I am not romantic enough to think a universal child benefit is the answer to today’s chronic child poverty. We have over a million children and a meaningful universal benefit would cost too much.

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.

While Working for Families reduced child poverty among working families, it has failed miserably to help the very poorest families as has been noted repeatedly by the Ministry of Social Development (Perry, 2013):

"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."

For those who missed out on the IWTC however, the Ministry itself says

"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."

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 support WFF the way NZS is supported.

b. Health and education

No one pretends that more money on its own will be enough, but more income for families is crucially important. But we delude ourselves if we think it can be done without a deliberate reallocation of resources on many fronts. Extra spending must be focused on housing, health and education for the children of low income families. At the same time social hazards such as loan sharks, pokies machines and liquor outlets must be controlled in low income areas.
c. Taxation of wealth essential if we are to address inequality.

I suggest that Capital gains tax is not the answer however. Even if we got one in tomorrow it could not capture all the excessive gains to date. Neither would it deal with the ability of landlords to generate rental income losses while making capital gains.

I would like there to be more public discussion of Risk Free Rate Method (RFRM). This approach says all income returns to capital should be treated the same. The RFRM looks at total equity in all property and taxes it as if it was money on the bank. Suppose I have a $600,000 rental with a $400,000 mortgage. Instead of returning the rental income I would be taxed on the equity 200,000 as if I had put it into the bank and it had earned a risk-free rate- say 4%. My taxable income would be $8000 regardless of whether the rentals were profitable or how high the mortgage payments were.

The family home would be included and there wold be an exemption to reduce the burden on those who have modest property equity only.