

Family policy, care of children and social inclusion

The New Zealand experience

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Introduction

Thank you for having me today. It is great to be asked to contribute to a forum that has 'Social Inclusion' at the centre of the discussion. I think that I will learn far more from you to take back to New Zealand than you will benefit from our experience.

Unfortunately the welfare debate in NZ is not focussed on 'well-being' and is in many respects quite a crude debate about Welfare Dependency – the symptom. Paid work has been placed at the centre, NOT 'care', and sadly not 'well-being'. We have not had any visionary discussions as to how to achieve social security in a changing world and in most aspects, our debate has been quite unsubtle and rudimentary.

New Zealand's early reputation as the birthplace of civilisation as far as social policy is concerned has of course long since been tarnished. The context of my remarks will be the first decade of the 21st century in which I argue New Zealand has much to learn from Australia.

Context

The 2000-2008 Labour Government was very much a 'Third Way' government. NZ tends to follow the UK in social policy with about a 5 year lag, and adopting the third way philosophy is no exception. By this I mean that as in the UK the NZ government focused on the principle role of 'enabling' market participation rather than being committed to more direct means of redistribution. 'Social inclusion' in the crude Third Way version we have experienced is almost entirely conceived of in terms of having paid work.

In New Zealand child poverty rose sharply following the 1990's draconian neo-liberal reforms. Just as in the UK, a concern about child poverty eventually emerged in political dialogue in NZ. To address that, the New Zealand Labour-led government finally came up with a major new package calling it 'Working for Families' This revamp of our family tax credit system was based on the principle that 'work is the way out of poverty'. Reinforcing this third way thinking, the Social Security Act was rewritten to move away from the concept of social inclusion as

Rewrite of the Social Security Act 2006

" work in paid employment offers the best opportunity for people to achieve social and economic well being"

"the priority for people of working age should be to find and retain work"

'participation and belonging' to a minimal safety net approach that sees welfare solely to alleviate poverty and puts paid work at the centre. Just as Labour effectively paved the way for more extreme pro-market policy when National was elected in 1990, the election of the National government in 2008 heralded some further intensification of the work focus. Thus the entire decade has seen an unremitting focus on paid-work, and an increasing demand that this is to be seen as the answer, not more redistribution.

'Working for Families' 2005-2007, the **Social Security Act amendment 2006** and the **Social Assistance (Future Focus) Act 2010** were not the outcome of any Royal Commission or consultative process. There has been no systemic attempt to ascertain the values appropriate to the complex and evolving world of the 21st century nor has there been a re-examination of the emphasis on paid work. As policies have become more and more complex and social assistance has become more determined by work status, there are more hints of the greater use of private mechanisms such as private insurance. There has been no real debate about the legitimate role of social insurance, such as operates for accidents in New Zealand, but increasingly the role of the state is being questioned and welfare reform discussions are drawing on private insurance principles.

Among social policies that reinforce the centrality of work paid parental leave, for example, reinforces of the advantage for mothers in qualifying kinds of paid work while leaving out others. It is refreshing to see a much more flexible, less paid work focused and nuanced policy on paid parental leave proposed for Australia. But today I will focus the rest of my remarks on family assistance policy as an object lesson in what to avoid in trying to apply work-focussed policies.

Working for Families (WFF)



This major package which followed years of neglect and erosion of family assistance was implemented between 2005-2007. In contrast to Australia, New Zealand has tried to use its child-related family assistance tax credits to create a gap between those in work and those not in work.

Family assistance is a per child, per week payment to the caregiver based on joint family income and abated at 20% above NZ \$36827. For a one child family the maximum is NZ \$148 per week, comparable to Family tax credit A and B in Australia. **BUT** part of this weekly payment (\$60) is to 'make work pay' and called the In Work Tax Credit (IWTC). Total WFF tax credits for the 1 child family comprise \$88 Family Tax Credit and \$60 In Work Tax Credit.

In Work Tax Credit-IWTC

The IWTC is \$60 and increases for larger families, for example is \$90 for five children. While the IWTC is a form of 'In Work Benefit' it is not designed to just target the transition to work as it applies well up the income scale and only applies where there are children.

The IWTC reflects the philosophy that social inclusion is through paid work. It requires the parents to be "off benefit" and to work a required number of paid hours per week. These are 20 hours for a sole parent and 30 for a couple.

The Objectives were twofold:

1. To Increase participation in a tight labour market, especially for sole parents
2. To Reduce child poverty

When the legality of the IWTC was challenged under discrimination laws (CPAG v the Attorney General 2008), Crown Law argued ferociously in the Human Rights Tribunal that the IWTC was not related to children. This was dismissed by the Judge who stated that it clearly was a child-related payment. The IWTC resembles the FTC in every respect except in who gets it. It adds on to the Family Tax Credit and abates last.

Assessing the IWTC

The IWTC was Influenced by the UK Working Tax Credit and the US Earned Income Tax credit with dual objectives of incentivising work and poverty. But the New Zealand IWTC design is quite unique. It has proved controversial and expensive. The caregiver (who may not be in any paid work) in a 5-child family still gets \$90 IWTC a week even when household incomes may be well over \$100,000. Judged against its objectives, it has had modest to zero employment impact of any lasting nature on the target group of sole parents, an outcome no doubt affected by the recession. Working For Families represents a major redistribution and the IWTC clearly reduces child poverty for the low income families who qualify. While the drop in the child poverty rate is a welcome outcome it has to be asked: who has been left behind?

Using internationally accepted methodology, hardship indicators have been developed by the Ministry of Social Development (MSD) to give an index of living standards. The population is ranked on seven categories from serious hardship, significant hardship, some hardship through to very good living standards. Between 2004 to 2008, there was a drop in 'serious and significant' hardship levels among children, (26% to 20%) but they still had the worst profile of any age group as shown in Figure 1 (Perry, 2009). Thus even after the introduction of WFF, 20% of children live in conditions of serious or significant hardship. The gains from WFF were mostly from low to middle income working families, with little change in hardship for children from beneficiary families.

Figure 1 Distribution of ELSI-3 scores for age groups (2008)

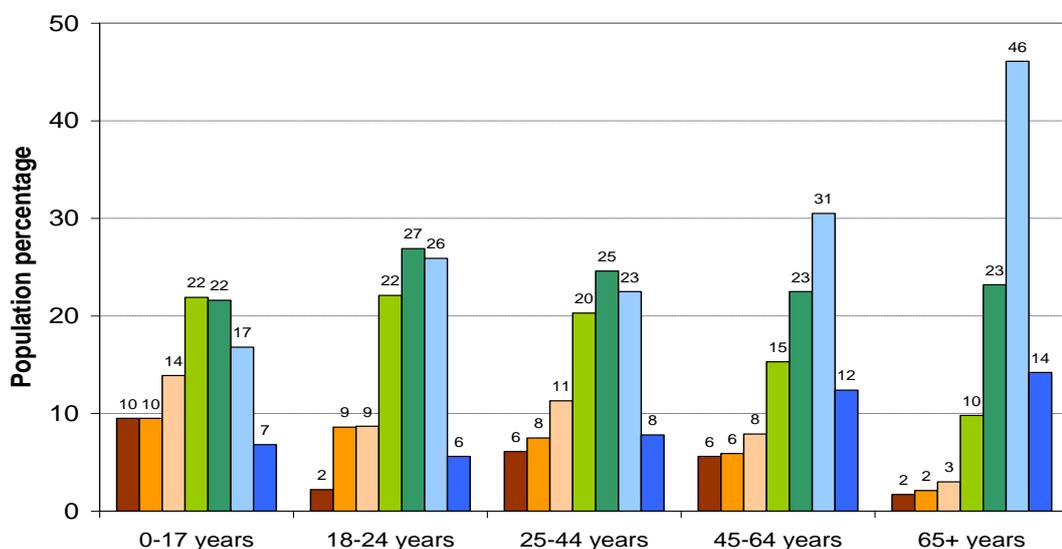


Figure 2 Distribution of ELSI-3 by income source (2008)

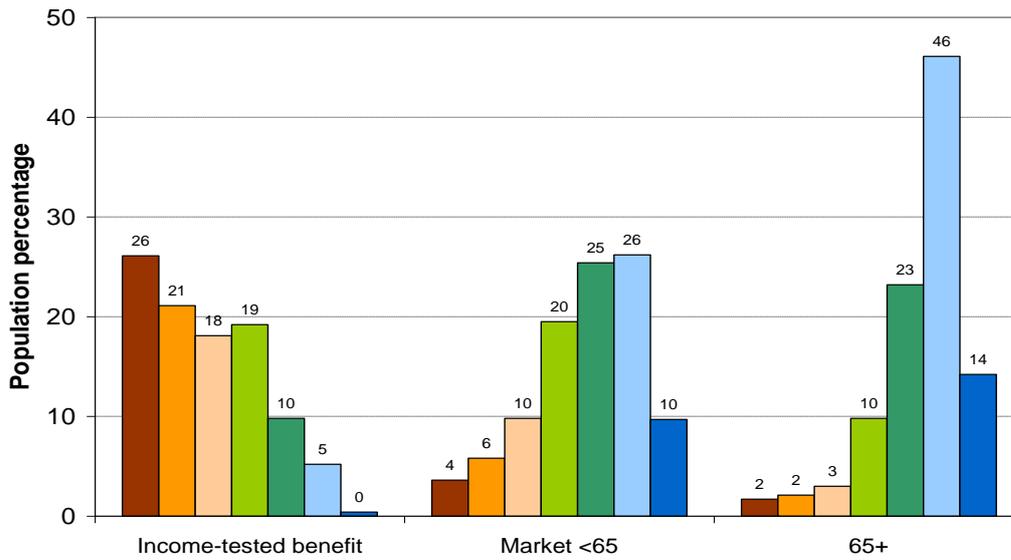


Figure 3 Beneficiaries by presence of children (2008)

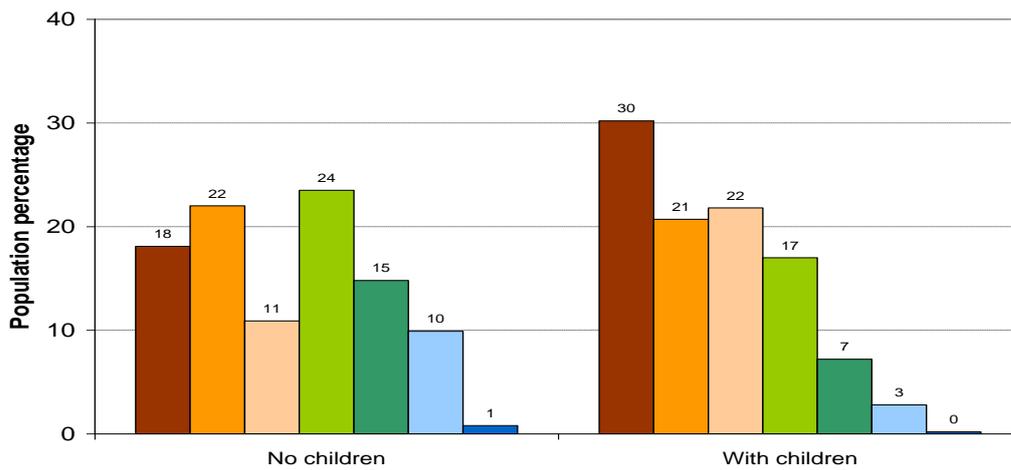
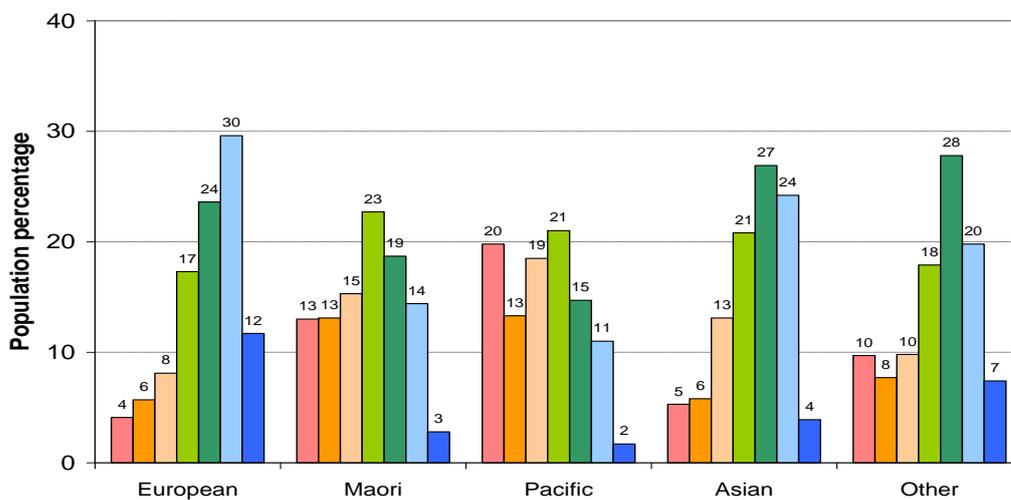


Figure 4 By ethnicity, 2008



Figures 2 and 3 show that poverty is concentrated on families on benefits especially where there are children. At the end of 2009, around one in five New Zealand children were living in benefit dependent families. For these children, the rates of poverty are significantly higher: child poverty rates are almost 75 percent for 'work-less households' compared to 11 percent where at least one adult is working-full time. Poverty rates are also much higher among Māori and Pacifica populations (Figure 4).

WFF had no or very little impact on the beneficiary families that were left out. In reflecting on the left out group the MSD described this situation as unacceptable. There was no political response from politicians but the current Minister of Social Development has reiterated that she will also have "a relentless focus on work" as the way to address the problem.

"[These children] are without a doubt ... experiencing serious hardship and unacceptably severe restrictions on their living conditions for citizens in a developed nation like New Zealand." (Perry, 2009, p 46

Given the overwhelming proportion of children in sole parent homes (DPB) relative to the other main benefit categories reducing child poverty will require particular targeting this benefit group.

In the meantime demand at foodbanks for food parcels have continued the steady upwards trend into the late 2000s.

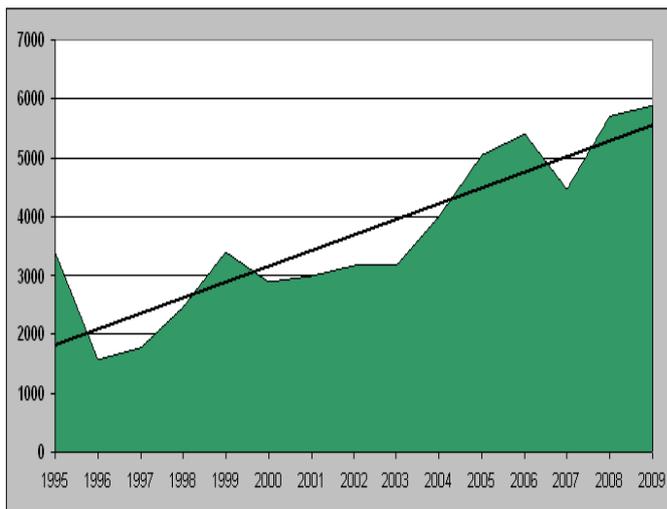


Figure 5 Foodbank usage - Auckland City Mission

Foodbanks were largely unknown in the 1980s but began as a major industry in 1991 following the dramatic cuts to welfare, labour market reform and the introduction of user pays policies.

Figure 5 shows data from the Auckland's central foodbank the Auckland City Mission and the small dip in 2007-2008 associated with Working for Families and the

economic boom.

Unintended consequences of the work focused IWTC

Because the IWTC does not help people without children another compensating tax credit the Independent Earner Tax Credit IETC was introduced in 2009 to 'make work pay' for them. This has further complicated the tax system.

The IWTC was designed in a time when it was thought we did not have to worry about recessions anymore. The recession of the late 2008- 2010 period has been severe, and as families have lost their jobs the caregiver has also lost entitlement to the IWTC. The IWTC was supposed to be a work incentive but in effect acts to further punish families in a recession. This in turn has resulted in some stop gap measures which mean some families that meet the strict rules can keep the IWTC for up to 16 weeks under the

'ReStart' package. Others simply have to make do with far less family assistance for their children. Interestingly in opposition, Labour is now saying they got it wrong by not anticipating the recession.

Finally it was not foreseen that IWTC might constitute discrimination under Human Rights legislation. There have been lengthy court proceedings in 2008 and ongoing appeals. While not found so far to be illegal, the IWTC has been judged in the Human Right Tribunal to be discriminatory with serious effect for those children who miss out.

What is social inclusion for children?

- Good health
- Warm stable housing
- Participation
- Opportunity
- Care-free childhood

Children should not be punished for the so-called failure of their parents to find stereotypical work regardless of the family's circumstances or state of the economy.

To conclude: It is very important to have a broad Social Inclusion framework and dialogue about what social inclusion means such as happens in Australia. We do not have that way of framing the issue in the current environment. We have no reference point that entails a concept of social inclusion that enhances people's well-being. New Zealand shows that it is easy to get poor policies when 'paid work' instead is placed at the centre.

Perry, B. (2009). *Non-income measures of material wellbeing and hardship: first results from the 2008 New Zealand Living Standards Survey, with international comparisons*. Wellington: Ministry of Social Development.