



# Left further behind:

how policies fail the  
poorest children in  
New Zealand

A Child Poverty Action Group Monograph  
Edited by M.Claire Dale, Mike O'Brien and Susan St John

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Child Poverty Action Group (Inc) (CPAG) is a non-profit group formed in 1994, and made up of academics, activists, practitioners and supporters. CPAG has a strong education and research role which enables it to contribute to better informed social policy to support children in Aotearoa New Zealand, specifically children who live in poverty. CPAG believes that our high rate of child poverty is not the result of economic necessity, but is due to policy neglect and a flawed ideological emphasis on economic incentives. Through research, CPAG highlights the position of tens of thousands of New Zealand children, and promotes public policies that address the underlying causes of the poverty they live in. If you are not already supporting CPAG and you would like to make a donation to assist with ongoing work, please contact us at the address below or through our website: [www.cpag.org.nz](http://www.cpag.org.nz).

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**Left Further Behind: How New Zealand is failing its children.**

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# Preface

Child Poverty Action Group (CPAG) publishes this report on the state of New Zealand children and the policies that affect them at a very worrying time in our history. Children and families have been affected badly not only by a protracted recession but also by two major earthquakes. The economic outlook remains uncertain and the evidence from social agencies is that they have never been busier in dealing with social distress among our families and youth.

This report supplements the series of CPAG publications examining policies as they affect children, and recommending ways forward that would provide better outcomes. The first two major publications: *Our Children: The Priority for Policy*, 2001; and the update of that in 2003, were followed by *Room for improvement: Current New Zealand housing policies and their implications for our children. Cut price kids*, in 2004, challenged the Government's "Working for Families" (WFF) policies to work for children. In 2005, *Hard to swallow* brought foodbank use in New Zealand to public attention, and *Workfare: Not fair for kids?* looked at how the WFF policies were actually impacting on the poorest families. Three years later, in 2008, *Left behind: How social and income inequality damage New Zealand children*, took a wider view across the macroeconomy to explore the lives of children, and found that in many areas, we had become world leaders in the worst outcomes, including child health and child harm. In *What work counts?* in 2010, the impact of so-called "work incentives" on sole parent families was the focus. This was followed in July 2011 with *Hunger for Learning*, which showed how necessary it is for schools in low income areas to provide food for their children: brains require actual food as well as information.

This unfolding reality of continuing and significant hardship for the 200,000 of the poorest children in this country and their families has driven the publication of *Left Further Behind*, 2011. This latest contribution updates *Left Behind* (2008) and also broadens the focus to provide new insights into the wide range of issues that affect children. It offers critical analysis of the state of New Zealand children in 2011 and the effectiveness of family and social policy. It provides strong recommendations for the way forward.

Much government policy since the advent of 'Rogernomics' in the 1980s has been dangerously narrow and selective in both its definition of work, and its insistence on the singular importance of paid work as the way out of poverty. In *Left Behind* 2008 we wrote in the preface:

*CPAG believes that making a paid job the only way to access sufficient income to care for children is flawed and directly damaging to children. Until this ideology is abandoned, New Zealand will continue to suffer from the high economic, social and personal costs of child poverty.*

Unfortunately, since 2008, intensification of the work-based philosophy, with proposed welfare reforms promising to further impact on the well-being of poor children and their families, has been accompanied by fewer jobs available in the far less favourable economic times. For the sake of New Zealand's future, CPAG urges the government, politicians and the wider New Zealand community to take the messages of this report seriously.

CPAG is fortunate to be able to draw on the experts in each of the fields covered. The editors, Associate Professor Mike O'Brien, Counselling, Human Services and Social Work University of Auckland, Dr M.Claire Dale and Associate Professor Susan St John of the University Auckland, have extensive backgrounds in economic and social policy. In addition to the editors, CPAG members who have contributed chapters are Professor Innes Asher, Dr Nikki Turner, Dr Nicholas Fancourt, Alan Johnson, Dr Vicki Carpenter, Professor Martin Thrupp, Julie Timmins, Donna Wynd, and Dr Steve Poletti.

We are also fortunate to have assistance and contributions from Dr Louise Humpage, Mamari Stephens, Dr Teuila Percival, Beth Wood, Andrew Familton, Michael Fletcher, Catriona MacLennan, Frances Joychild, Katie Bach, Dr Simon Denny, Associate Professor Sally Merry, Professor Jenny Ritchie, Lucie Trask, Nicola Slight, Sarah Larson, Caleb McConnell, and John Pearce.

We are grateful to Janfrie Wakim, Michael Littlewood, Vicki St John, and our final proof-reader, Sue Osborne, for their skilled assistance. CPAG acknowledges the many helpful comments on drafts of this publication from different sources. While each chapter, and any errors therein, is the sole responsibility of the authors, the recommendations that flow from each chapter are strongly endorsed by CPAG.

CPAG also acknowledges the enormous contribution made by Apropos to the presentation of this publication, as well as to previous publications, and to our website. Their ongoing support and occasional critique has been invaluable.

Further thanks go to the John McLachlan Charitable Trust and the Clyde Graham Charitable Trust, both administered by the Guardian Trust, which have contributed to the production costs of this publication.

CPAG's publications are available to download, free, from the website: [www.cpag.org.nz](http://www.cpag.org.nz)

Our Children: The Priority for Policy	2001; 2003
Room for improvement: Current New Zealand housing policies and their implications for our children	2003
Cut price kids: Does the 2004 "Working for Families" budget work for children?	2004
Hard to swallow: Foodbank use in New Zealand	2005
Workfare: Not fair for kids?	2005
Left behind: How social and income inequality damage New Zealand children	2008
What work counts? Work incentives and sole parent families	2010
Hunger for Learning. Nutritional barriers to children's education	2011
Left Further Behind: how policies fail for the poorest children in New Zealand	2011

# Executive Summary

In 2008, Child Poverty Action Group produced *Left Behind*, which reflected the position of children in New Zealand. Three years later, the lack of substantial progress on so many issues facing children in this country leads us to rewrite and update that publication. In this report we reflect what is required to ensure all children have the resources and opportunities to grow and to develop their potential. Recent years and recent policy approaches have focused heavily on supporting, and sometimes forcing, parents (especially lone parents) into paid work. The needs and interests of children require a much broader approach. And in the interests of both children and parents, the work of caring for children needs to be given adequate recognition and support. Children's wellbeing must be central, whether parents are in paid work or not.

The core message of this publication is simple: **ALL** children, irrespective of the status and position of their parent/carer, are entitled to the best possible support from their parent/s and all New Zealand society. Together, we share responsibility for ensuring that children are given that support. While charity can make a useful contribution to assist and support children and families experiencing particular stresses, it cannot solve the problem of poverty, and poverty is the major problem facing around 200,000 New Zealand children. That solution requires collective action from families and communities; and it requires a commitment from the Government to make investing in our children the highest priority.

This publication traverses a wide range of issues affecting our children, including: incomes, health, housing, education, parental support, social hazards, and the lack of job opportunities for young people; and is built around the idea of putting children at the centre of policy decisions. None of the issues can be tackled in isolation. A concerted and coordinated approach to reducing child poverty and improving the wellbeing and opportunities for all children is required. Without such an approach, children will suffer unnecessarily and New Zealand will be poorer economically, culturally and socially.

While each chapter addresses specific issues and recommendations for change (collected as a Summary at the end of this publication), seven key recommendations emerge:

- Monitor major indicators of child poverty and report these on a regular basis with specific target reductions to be met on the way to ending child poverty by 2020; and fund child-impact assessments of existing and future national and local policies;
- Create a senior Cabinet position with responsibility for children, such as a Minister for Children, to support the move toward a child-centred approach to policy and legislation;
- Remove work-based rules for child financial assistance and pay the equivalent of the In-Work-Tax-Credit to all low income families. Simplify administration of tax credits.

- Acknowledge the vital social and economic contribution made by good parenting: ensure that affordable, appropriate childcare and early childhood education, including kohanga reo and playcentres, is available for all children; and ensure that training allowances support sole parents education where appropriate;
- Provide free access to healthcare for all children under age six, 24 hours a day, 7 days a week;
- The Government develop and fund a national housing plan to address the emerging housing shortages identified by the Department of Building. Meanwhile, ensure that housing is affordable and appropriate (eg address overcrowding, dampness, cold);
- Provide adequate funding for low decile schools to ensure that all children have access to high quality education.



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# PART ONE

## Chapter 1. Introduction

### Overview

This report comes out in 2011, three years after Child Poverty Action Group's (CPAG) report, *Left Behind*, 2008; and four years after the New Zealand government completed the rollout of its flagship family assistance policy, 'Working for Families' (WFF). That policy, introduced with a raft of other policies such as increased subsidies for housing, childcare and health, recognised child poverty as a serious problem. There was a large increase in spending so that concerns about child poverty should have been well on the way to relegation to the annals of history.

Unfortunately, CPAG's 2008 report provided ample evidence that despite WFF and other family-related policies, the poorest children were left behind relative to their peers. The full benefits of the WFF package are available only to those families who meet a work-test, thus widening the gap between families 'in work' and others; between those seen as 'deserving' and the 'undeserving'. Nothing has changed to correct this situation but, in the meantime, New Zealand has suffered from a protracted recession and some serious natural disasters. Reports from frontline social services suggest child poverty has worsened in the economic downturn making the need for action even more pressing. For all the reasons outlined in this report, it is of grave concern that child poverty is now even more entrenched and difficult to address.

As employment opportunities for sole parents and young people evaporated in the economic downturn, the rhetoric around 'welfare dependency' intensified. The Minister of Social Development's Future Focus literature (Bennett, 2010), and the Welfare Working Group's final report (Welfare Working Group, 2011) for example, give almost exclusive priority to paid work as the route out of poverty. While it is agreed that paid work is an important factor in family well-being, the focus is too narrow and will not solve the problem of child poverty.

What tends to operate now in a wide range of policy areas is not child-centred, nor are children socially included. Children appear in the policy discussion in complex ways: as burdens on their parents; as adults-to-be; as victims of adult choices about relationships; and as threats to social order and stability. Children do not often appear simply as children, with their own voices, their own agency, and their right to a happy, safe childhood.

When work, not children, is at the centre, the needs of the poorest children become

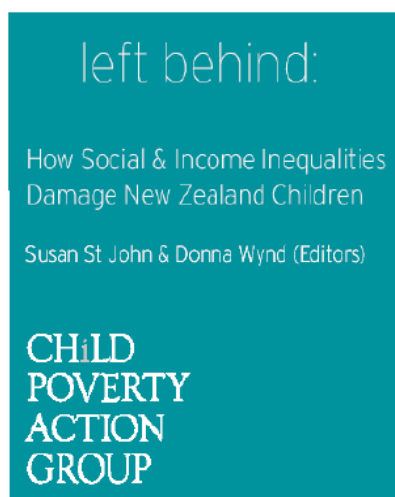
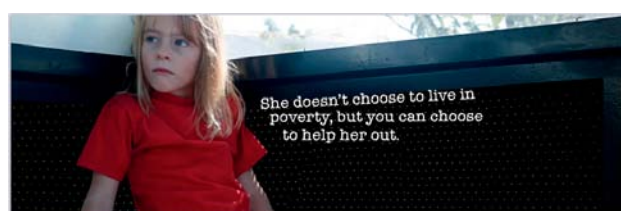


Image from KidsCan Advertising Brochure 2011

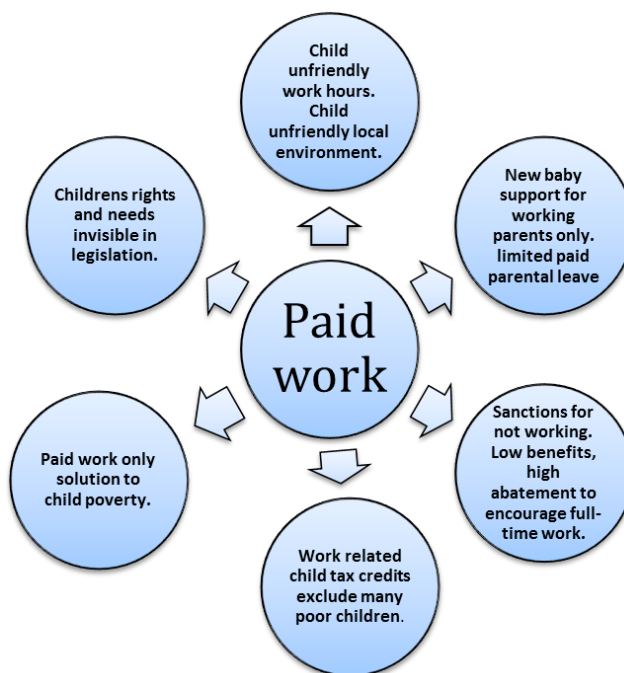


more and more relegated to the charitable sector. In 2011 we are exhorted to sponsor poor children in New Zealand much like poor children are sponsored overseas. We are told: “For less than 50 cents a day you can help unlock the potential of a child living in poverty and provide the basics they’re missing out on”.<sup>1</sup> That 50 cents a day helps alleviate poverty, and we applaud the efforts of committed people who are responding compassionately to the need that is so clearly not met by current policy settings. The positive reception by poor communities and the pleasure expressed by the children themselves to KidsCan’s distribution of food, shoes and raincoats does show that material help to families, no matter how small, makes a real difference.

Unfortunately, reliance on charity is a sticking plaster, and an insecure means of support. It will not address the underlying structural and systemic issues.

When paid work is at the centre, we get not only the charitable model, but a raft of other policies and outcomes that reflect this focus. Figure 1.1 simplifies the story, and illustrates the kinds of policies that flow from a work-centred approach. While acknowledging there are trade-offs, this report discusses the consequences for children of the failure to put their needs at the centre.

**Figure 1.1: Paid work at the centre**



### Listening to children

The United Nations Convention on the Rights of the Child (UNCROC) was adopted in 1989, and New Zealand, with provisos, became a signatory in 1993.<sup>2</sup>

*UNCROC marked a milestone in the development of children’s rights as the first internationally binding instrument that recognised the need to assign special rights to children having regard to both their implicit vulnerability and their potential to contribute to society.* (Hancock & Walters, 2009)

Under the Convention, governments are required to undertake a thorough review of legislation, policy, and practice when making their mandatory progress reports to the UN Committee.<sup>3</sup> As an outcome of UNCROC, many countries have attempted to incorporate children’s voices and participation into policy-making.

1 KidsCan website: <http://www.kidscan.org.nz/>

2 The New Zealand Government ratified UNCROC in 1993 with three reservations. These reservations, which still stand, were made in respect of the following Articles of the Convention: Article 22.1 – Requires States Parties to take appropriate measures to ensure that children seeking refugee status are provided with the same rights under the UNCROC as other children, as well as appropriate protection and humanitarian assistance. Article 32.2 – Requires, inter alia, States Parties to provide for a minimum age of entry into employment. Article 37(c) – Requires, inter alia, that States Parties ensure that children deprived of their liberty are separated from adults unless it is in the child’s best interests not to do so (Hancock & Walters, 2009).

3 Copies of the New Zealand Government’s progress reports, and the responses to them, are available at Action for Children and Youth Aotearoa Inc: <http://www.acya.org.nz/>.

Enthusiasm and commitment to UNCROC principles has not been very evident in New Zealand. However, in 2009, the Office of the Children’s Commissioner (OCC) and UNICEF commissioned research in 2009 to review New Zealand experiences and international evidence on the use of child-impact assessments in local and national governments’ decision-making. While noting that child assessments can have drawbacks as well as benefits, the authors of this report conclude that UNCROC’s requirement for children’s meaningful involvement in local and national government business:

*sends a signal to decision makers about the rights of children, and the process increases awareness of children’s interests with the aim that, over time, children’s interests and needs will be mainstreamed in policy and practice.* (N. Mason & Hanna, 2009, p. 32)

In the child-impact assessment process illustrated in Figure 1.2, the core question is whether the best interests of the child have been considered:

*What are the likely positive and negative impacts of a policy or activity on local children – including particular populations of children – and what are the alternatives that might mitigate these impacts?* (N. Mason & Hanna, 2009, pp. 32-33)

**Figure 1.2. Implementing a child-impact assessment**  
(Source: Mason & Hanna, 2009, p. 32)

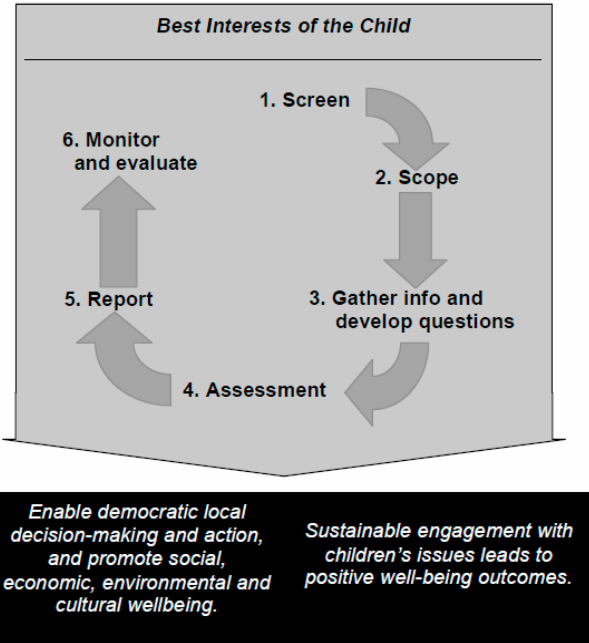


Figure 1.2 suggests that in the first instance, policies should be screened as to their likely effects on children, especially poor children. As Mason and Hanna (2009) suggest, importantly, child-impact assessments should not be limited to policies which are directly child-related. For example, policies on the distribution of licences for alcohol and gambling outlets are indirectly, but critically, related to the well-being of children (see chapter 15 on social hazards).

Changing the conversation

Placing children in the foreground with legislation to ensure all government policies are compatible with their needs and rights would begin to shift the conversation to a child-centred approach.

Some countries such as the UK have adopted specific child-centred legislation. The UK Child Poverty Act 2010 sets out targets and obligations on government to meet specific reductions in child poverty.<sup>4</sup> But laws and policies alone do not guarantee children’s rights: the resources required to deliver the laws and policies must be available to those with the responsibility for implementation (Moloney, 2011, p. 13).

<sup>4</sup> A short guide to the Act is provided on the UK House of Commons Library website at: <http://www.parliament.uk/briefingpapers/commons/lib/research/briefings/snsp-05585.pdf>.

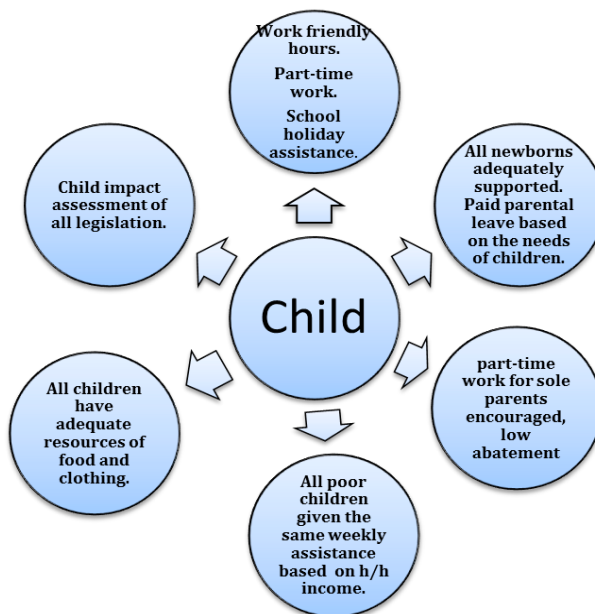
Another approach is to give children a specific representation in the decision-making process.<sup>5</sup> Among their numerous recommendations for improvement in New Zealand, the Public Health Advisory Committee (PHAC 2010b, p. ix) suggests creating an identified senior Cabinet position with responsibility for children, such as a Minister for Children.

In addition to considering principles of social inclusion and rights for children, we should acknowledge that children do not live in isolation. Their well-being is closely bound up with the well-being of the family or whānau. Rather than fragmented interventions from different agencies focused on individuals who present with complex needs, the Whānau Ora programme offers the possibility of an holistic approach. Perhaps Whānau Ora will succeed in bringing the different agencies together where past initiatives have failed? This approach resonates with Māori and with Pacific peoples (Ministry of Health, 2008), although, as argued in Chapter 4, its impact on poverty rates is much more uncertain.

This report, *Left (further) Behind*, analyses the nature of the range of policies that affect children and shows if children’s needs were put at the centre, policies would be very different. Figure 1.3, with the child at the centre, contrasts with Figure 1.1, with work at the centre, and illustrates how the focus might shift in a selection of policy areas. For example with children at the centre, it is unlikely that the Welfare Working Group (WWG) appointed by the National-led Government in 2010 to investigate welfare reform would recommend the imposition of significant sanctions for welfare recipients who do not meet their “jobseeker” obligations (see chapter 3 for an overview of welfare reforms).

The path away from child poverty toward a better future requires access to adequate resources and opportunities for all children. Achieving this requires valuing children in their own right, combined with a commitment to provide for all children, irrespective of parental work status, where families live, or their cultural backgrounds. This publication is part of CPAG’s ongoing contribution toward achieving that objective for all children of Aotearoa.

**Figure 1.3. Children’s needs at the centre**



### Chapter summary

Chapter 2 examines the measurement and nature of child poverty in New Zealand in the context of the growth in inequality. There is a growing body of evidence that social and income inequality is harmful to individuals and society as a whole. The group most affected by increasing inequality and poverty is families with children who rely on income-tested benefits. Chapter 3 outlines the nature of the recent social security reforms and their effects. It focuses particularly on the negative effects the proposed welfare reforms are likely to have on the thousands of children in beneficiary families as a result of the narrow emphasis on paid work. The reform of social security proposed

<sup>5</sup> It has sometimes been suggested that children be given a vote exercised by their parents, but this is unlikely to see the promotion of the interests of disadvantaged children and is not further considered in this report.

by the government-appointed WWG has occurred with almost no public discussion or community input and with selective attention to the available evidence. Chapter 4 then provides an analysis of Whānau Ora in the context of history, and of continuing high rates of poverty among Māori children. Chapter 5 focuses on the position of Pasifika children, also significantly over-represented in the poverty statistics.

Part Two begins with Chapter 6, reviewing and updating CPAG's analysis of the Working for Families package. Chapters 7 and 8 take up two specific income support issues of significance for children, namely the support for new-borns from paid parental leave provisions and Child Support. Both of these issues warrant much more extensive exploration than is possible here. Benefits are one side of the income-distribution story, and tax is the other. Chapter 9 describes how New Zealand's recent tax reforms, with little or no public debate, have again favoured the better-off.

Part Three (chapters 10–14) takes up the relationship between poverty and violence, and poverty and child abuse, issues which have received little attention in New Zealand. Chapter 11 draws on the framework provided by the United Nations Convention on the Rights of Children to review the legislation specific to children, and some of the outcomes of that legislation. Chapter 12 traverses a range of issues arising from the effects of poverty on children's health, an area in which there is now extensive national and international evidence about the vital links between poverty and children's immediate and long-term well-being. Despite being a developed country, New Zealand exhibits statistics for child health more usually found in impoverished countries in the third world. Housing is the focus of Chapter 13. Issues of housing accessibility and affordability continue to be critical to children's development and well-being. Housing costs represent one of the most serious influences on children's living standards, and on transience which in turn impacts on children's education. Chapter 14, the final chapter in this section, covers other important issues for children around 'social hazards', specifically alcohol, smoking, gambling and loan sharks. As elsewhere, children are frequently the unrecognised victims in all these areas.

Part Four turns to the questions of education and youth unemployment. The first of the chapters in this Part (chapter 15) examines issues around early childhood education. It begins with an overview of recent developments in this area, going on to argue that these have had very little impact on access for low-income communities, and for Māori and Pasifika households. Chapter 16 focuses on primary and secondary school education, with particular attention to two key areas: the introduction of national standards; and the plans for the introduction of Teach First. In both these areas, it is clear that the interests of children in low-income communities are not well served. Chapter 17 tackles a major question facing New Zealand: youth unemployment, an area requiring urgent attention for young people, their communities and future New Zealand society.

The final section, Part Five, contains Chapter 18 which presents pioneering work in New Zealand, namely the quantifying of the cost of child poverty. It is clear from this analysis that child poverty constitutes a significant cost for New Zealand, both directly and indirectly. This is followed by a summary of the chapter recommendations towards ultimately ending child poverty in New Zealand.



# Chapter 2. Child poverty and inequality

Mike O'Brien,<sup>6</sup> M. Claire Dale<sup>7</sup> and Susan St John<sup>8</sup>

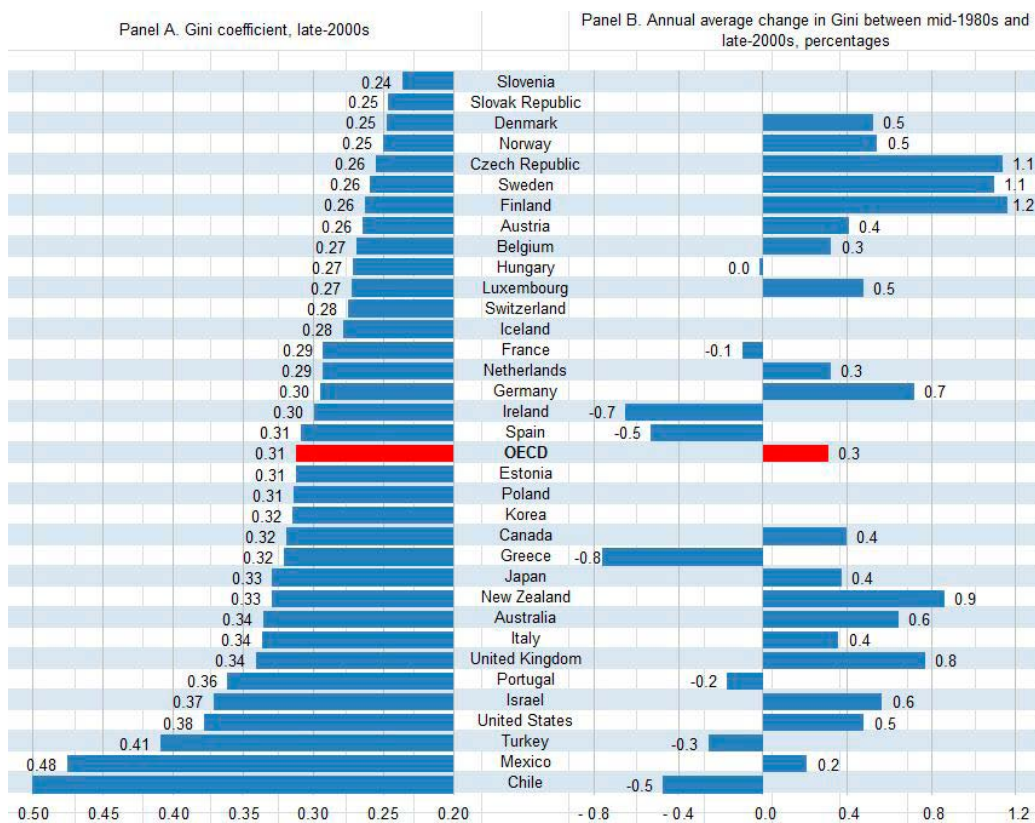
## Introduction

Inequality and poverty in relation to children underpin and shape much of the discussion throughout this report. In New Zealand, as elsewhere, these are complex issues. The Ministry of Social Development regularly reports data and analysis relating to household incomes, poverty rates and hardship. Without these reliable figures it would not be possible to monitor child poverty and inequality over time and the on-going collection of this data is of critical importance. This chapter summarises the key data on inequality and child poverty.

## Why inequality is an issue

*Whatever the mediating factors, it would appear that socio-economic inequalities have an adverse impact on population health and social outcomes. It is also clear that, by definition, these inequalities are at least in part socially produced. (Carroll, Casswell, Huakau, Howden-Chapman, & Perry, 2011, p. 3)*

**Figure 2.1. Rising income inequality** (Source: OECD, 2011c)



6 Dr Mike O'Brien is Associate Professor School of Counselling Human Services and Social Work at the University of Auckland, and Co Convenor of Child Poverty Action Group.

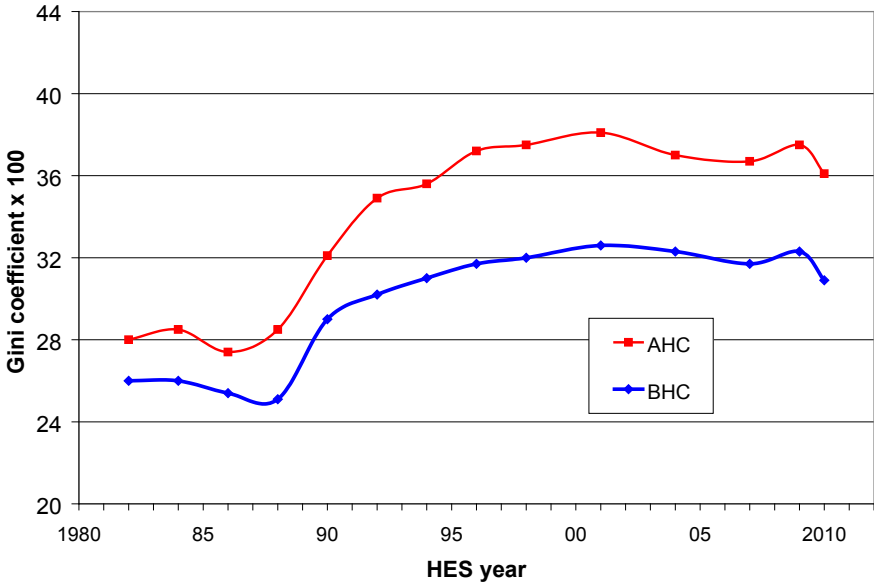
7 Dr M.Claire Dale is Research Fellow with the Retirement Policy and Research Centre at the University of Auckland, and a researcher and policy analyst for Child Poverty Action Group.

8 Dr Susan St John, QSO, Associate Professor of Economics, University of Auckland, co-director of the Retirement Policy and Research Centre and a member of the Management Committee of Child Poverty Action Group.

'Inequality' refers to the spread and distribution of income and wealth. Measures of inequality provide a picture of the position of different groups in society and the relationships between those who have the most and those with the least.

Gini coefficients are one method of showing the extent of inequality in a country.<sup>9</sup> As the Gini coefficients for income show in Figure 2.1 above, growth in inequality has been a feature of most OECD countries. Figure 2.2, below, shows that in New Zealand, inequality increased markedly between the mid-1980s and late 1990s. The increase was among the most substantial in the OECD and was significantly above the OECD average. From 2000 the level of inequality as expressed by this measure has been static or tending to fall. In international terms, however, it remains comparatively high.

**Figure 2.2. Inequality in New Zealand, the Gini coefficient** (Source: Perry, 2011 Figure D.16)



Wealth inequality is more marked than income inequality and is very pronounced in New Zealand. As shown in Table 2.1, in 2007, the top 10% of wealthy individuals owned 51.8% of total net worth; the top 1% of wealthy individuals owned 16.4% of total net worth (a likely under-estimate); and the bottom half of the population collectively owned only 5.2% of total net worth (Cheung, 2007, pp. 7-8).<sup>10</sup>

**Table 2.1. Percentile distribution of net worth ownership** (Source: Cheung, 2007, p. 8)

Percent of total net worth		Cumulative (%)	
Top 1%	16.4	Top 1%	16.4
Next 4%	21.3	Top 5%	37.7
Next 5%	14.1	Top 10%	51.8
Next 40%	43.0	Top 50%	94.8
Bottom 50%	5.2	All	100.0

9 The Gini coefficient summarises the income differences between each person in the population and every other person in the population. A difference of, say, \$1000 between two high-income people contributes as much to the index as a difference of \$1000 between two low-income people. The Gini scores (x100) range from 0 to 100 with scores closer to 100 indicating higher inequality and those nearer zero indicating lower inequality (i.e., greater equality) (Perry, 2010, p. 123).

10 This compares with the US, where almost 50% of private net worth is held by 5% of the population, and more than 25% is held by the wealthiest 1% (Isaac, 2007, p. 187).



Inequality in New Zealand has a significant ethnic dimension. Māori and Pacific peoples have younger population age structures than European, and are markedly poorer and less asset rich. Table 2.2 shows the net worth distribution between major ethnic groups, and highlights the differences between ethnic groups.

**Table 2.2. Distribution of population & total net worth, mean and median, by major ethnic group\***

(Source: Cheung, 2007, pp. 9-10)

	Percentage share in		Net worth		
	population	total net worth	Mean \$	Median \$	Mean / Median ratio
European	83.0	92.7	178,400	86,900	2.1
Māori	10.4	4.3	65,800	18,000	3.6
Pacific Peoples	4.9	1.3	41,400	6,700	6.2
Asian	6.4	3.8	95,600	21,000	4.6
Other	1.9	1.2	100,200	19,000	5.3

\* The classification of ethnic group is based on total responses to the question on ethnicity and hence adds up to more than 100 percent

Inequality can affect life chances, health, education and employment opportunities. It is a critical consideration in understanding and explaining social and economic difference and outcomes for children in New Zealand.

#### Inequality and poverty

There is a strong relationship between inequality and child poverty, and countries with lower levels of inequality demonstrate higher levels of child well-being and lower levels of child poverty. Differences in child well-being are more extreme in societies with greater income inequality (Hertzman et al., 2010, p. 468), and, as noted above, New Zealand has an above average level of income inequality in the OECD. Ridge and Wright (2008) capture the relationship between poverty, inequality and wealth in their argument:

*Poverty is inextricably linked to inequality and wealth. It is not just about material, social and economic resource, it is also about social relationships, social process and the control and exercise of power. Therefore the study of poverty, inequality and wealth raises fundamental questions about the organisation of society, social structures, relationships and social justice.*  
(Ridge & Wright, 2008, p. 1)

Inequality is about the spread of income and wealth between individuals and groups, while “poverty adds a further dimension of disadvantage” (Ridge & Wright, 2008, p.4). If there is a severe lack of resources, essential social, material and economic needs cannot be met. In rich countries, however, the concern is not about absolute deprivation but about a lack of resources that prevents full participation in society, and a sense of being socially included. In New Zealand, the Ministry of Social Development reflects the relative poverty approach:

*Poverty in the richer nations is about relative disadvantage – it is about households and individuals who have a day-to-day standard of living or access to resources that fall below a minimum acceptable community standard.* (Perry, 2009a, p. 5)

As the former CPAG UK director, Professor Ruth Lister, said in her 2010 Sambelll oration:



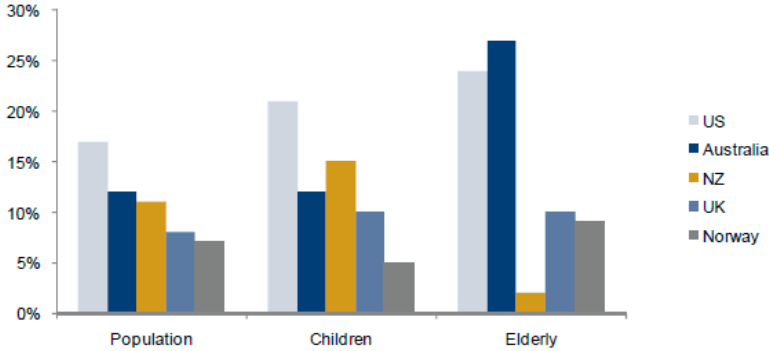
*A society that condones poverty in its midst is not a fair or inclusive society. So long as a significant minority is unable to participate fully in the life of the community and enjoy the kind of living standards taken for granted by the majority because of inadequate material resources, poverty eradication has to be a primary goal. Poverty excludes. It undermines the life chances of children and young people. Trying to get by on an inadequate income is stressful – particularly for women who tend to manage poverty and act as its shock-absorbers as they shield other family members from its full impact. (Lister, 2010)*

Non-material aspects of poverty emerge from everyday interactions with wider society, and from the way people in poverty are talked about and treated by politicians, officials, the media, and other influential bodies. Non-material aspects of poverty include lack of voice; disrespect, humiliation and assault on dignity and self-esteem; shame and stigma; powerlessness; denial of rights and diminished citizenship. All these aspects of poverty are compounded for children.

*... the impact of poverty is not only material. Indeed, as a group of low income parents in the UK told a parliamentary group, ‘the worst thing about living in poverty is the way it gives others permission to treat you – as if you don’t matter’. People in poverty are all too often treated as if they don’t matter and as ‘other’ to the rest of society – different and inferior. (Lister, 2010)*

While there is no universally agreed international standard to allow between-country comparisons of poverty rates, 60% of median disposable income (equivalised, that is, adjusted to reflect the composition of the household) is becoming more widely used as a basis for both measurement and comparison. However, for international comparisons, poverty rates have been more frequently reported using a 50% median figure. New Zealand’s poverty rates on this measure in relation to a range of other countries for the young, the old and the total population is set out in Figure 2.3. On these figures it is clear that New Zealand’s problem is with child poverty rather than poverty in old age as is the case in many other countries. As Perry (2011, p. 13) notes, the success story regarding old age poverty reflects the mix of private provision (mainly mortgage-free homes), and public provision of New Zealand Superannuation (NZS). This simple, inclusive, adequate, universal, basic income is given to all citizens from 65 years of age who meet modest residency requirements.

**Figure 2.3. Proportion living in poverty (below 50% median income)**  
(Source: Perry, 2010, Tables J1, J3, J6)



## Poverty in New Zealand

There are a number of important considerations in measuring poverty levels and changes over time. The first of these is the choice of level, with incomes under the 50% poverty line representing a very low standard for New Zealand's conditions (Perry, 2011, p. 160). In particular, social assistance levels are generally in the 50-65% (BHC) range; but the use of any particular percentage should be verified by independent estimates of what is needed for a minimum standard of living (Perry, 2011, p. 160). In this regard there is some New Zealand analysis that suggests that 60% (but perhaps higher in Auckland) is a suitable level for New Zealand.

The second important consideration is how to allow for housing costs, one of the most significant influences on poverty levels. Commonly, poverty figures are reported before housing costs (BHC) and after housing costs (AHC). The AHC line is calculated by deducting 25% from the corresponding BHC threshold as an allowance for housing costs. Each household's AHC income is then assessed against the chosen threshold (Perry, 2011, p. 162). The problem is that housing costs, especially in the main centres, tend to be closer to 33%.

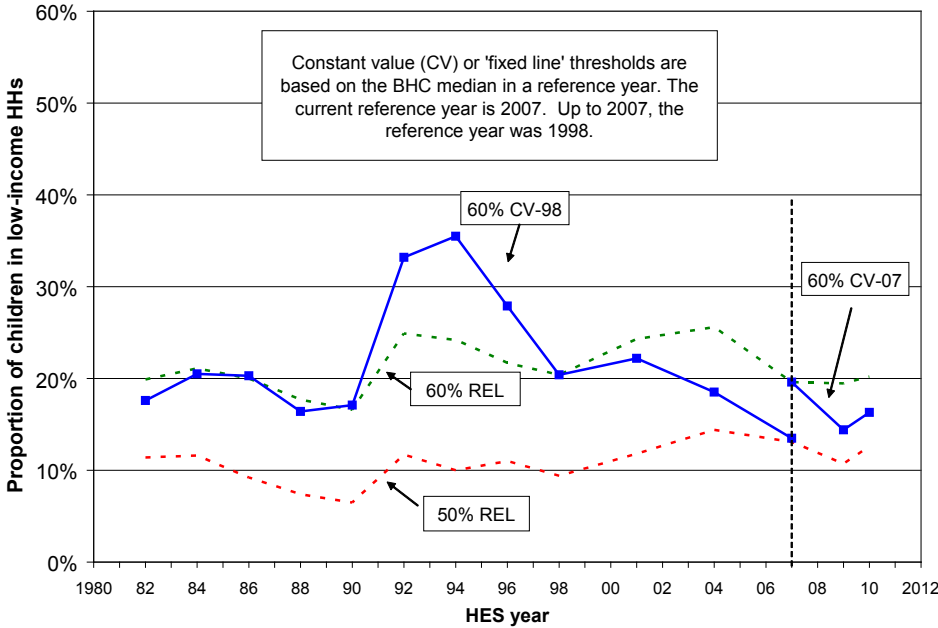
Thirdly, there is a choice between relative and fixed or constant-value poverty measures. Thus, when the median income increases with economic growth, a relative measure looks at the proportion of the population that falls under the moving median poverty line. This approach measures any change in poverty relative to what is happening in overall changes in incomes. The alternative approach is: define a poverty line at a point in time, for example, 60% of the median in the reference year; hold this constant in real terms; and see if there is any change in the proportion that fall under this fixed level of income. This is called the 'constant' or 'fixed-value' poverty rate. The change in the reference year also explains the discontinuity in the fixed line graph in Fig 2.4.

The effects of different measurement lines and of relative and constant income values are demonstrated in Figures 2.4 and 2.5 which set out the data for children below poverty lines set at 60%, and before and after housing costs.<sup>11</sup> The 50% relative line is also included, but as discussed above is not really suitable for New Zealand conditions.

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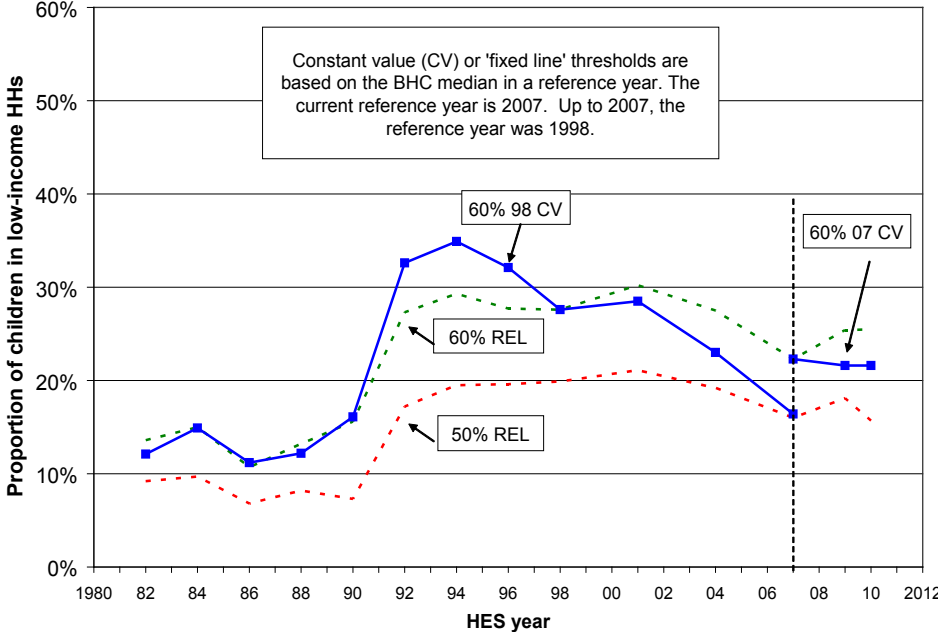
11 The figures show a discontinuity in the fixed line measure at 2007 when the reference year was updated from 1998 to 2007. Backdating these figures gives higher numbers in poverty on the fixed line in previous years as shown in Table 2.3.

**Figure 2.4. Proportion of children below selected thresholds (BHC): fixed line (CV) and moving line (REL) approaches compared** (Source: Perry, 2011, Figure F.3)



Comparing Figures 2.4 and 2.5, the constant-value BHC and AHC measures show poverty rates falling sharply after their peak in the mid-1990s, but declining less sharply on the AHC basis. The explanation is that, on average, housing costs in the 2000s made up a higher proportion of household expenditure for low-income households than they did in the 1980s. Despite improvements in housing policies, such as income-related rents introduced in 2000, and the later accommodation supplement increases, by 2009 there were still twice as many poor households who spent more than 33% of their incomes on housing as in the 1980s (Perry,2010, p. 85).

**Figure 2.5. Proportion of children below selected thresholds (AHC): fixed line (CV) and moving line (REL) approaches compared** (Source: Perry, 2011, Figure F.4)



On the three measures of poverty in Figures 2.4 and 2.5, many New Zealand children are in poverty. Numerically for 2010 as Table 2.3 shows, 270,000 children fall below the 60% AHC moving line and are in relative poverty. Of this group there is a worrying 170,000 who fall well below the 60% line, as shown by the very stringent 50% line measure.

<b>Table 2.3. Numbers of poor children in New Zealand (i.e., number of children in households with incomes below the selected thresholds) (Perry, 2011, p. 95)</b>				
Year	BHC	AHC		
	<b>BHC 'moving line' 60%</b>	<b>AHC 'moving line' 50%</b>	<b>AHC 'moving line' 60%</b>	<b>AHC 'fixed line' 60% (07 ref)</b>
2001	250,000	215,000	310,000	380,000
2004	270,000	200,000	290,000	320,000
2007	210,000	170,000	240,000	240,000
2009	210,000	190,000	270,000	230,000
2010	215,000	170,000	270,000	230,000

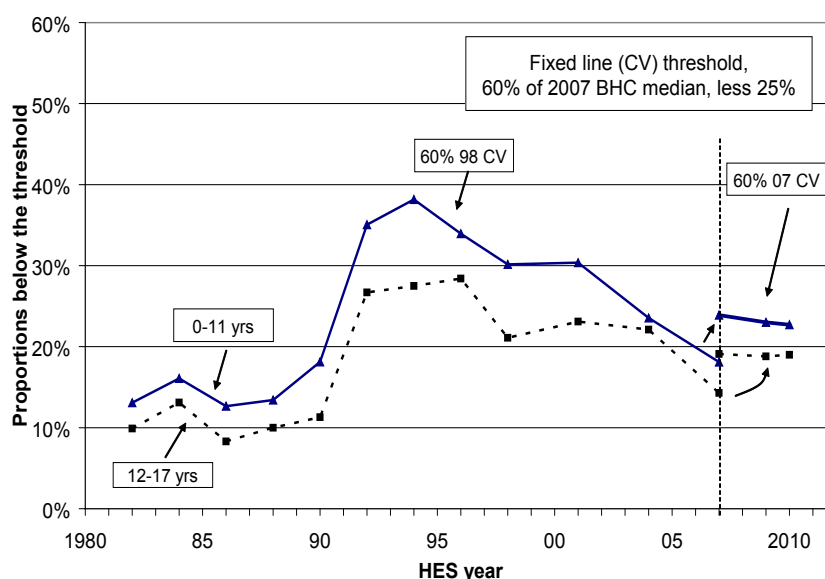
Has child poverty improved?

Between 2004 and 2007 the numbers declined on all measures and that can be attributed to the effect of Working for Families. Since then, relative poverty has increased while the numbers under the fixed line have fallen slightly. The latest figures for 2010 are based on incomes in 2009 and do not reflect the effects of the tax changes in 2010, nor the full impact of the recession, or the Canterbury earthquakes.

Using these relative and fixed-value 60% poverty lines, younger children are more likely to experience poverty than their older counterparts, as is reflected in Figure 2.6.

**Figure 2.6. Proportion of children in low-income households by age (AHC, fixed line)**

(Source: Perry, 2010, p. 102. Figure H.1)



What is the best poverty line to use?

To give some idea of actual dollars represented by incomes at the three poverty lines, as shown in table 2.4 below, at 50% of median income (moving line), a sole parent with 1 child would have just \$446 per week BHC, and \$336 per week AHC in 2011. The dollar income for a sole parent with 1 child is \$536 BHC, and \$404 AHC on the 60% moving line; and on the 60% fixed line, \$488 BHC and \$367 AHC in 2011 dollars. Many beneficiaries would find that their actual housing costs would push them well below the 60% AHC line (Perry 2011 p. 84).

<b>Table 2.4 Weekly income, sole parent, one child, at three poverty lines</b>	
<b>2011 income (2011 dollars)</b>	<b>Sole parent, one child</b>
50% median income (moving line) BHC	\$446
50% median income (moving line) AHC	\$336
60% median income (moving line) BHC	\$536
60% median income (moving line) AHC	\$404
60% median income (fixed line) BHC	\$488
60% median income (fixed line) AHC	\$367

Internationally there is increased recognition that the role of housing must be taken into account in determining who is in poverty. The Human Rights Commission has also recently affirmed that it will track certain measures to assess progress toward the desired outcomes or improvements in welfare and well-being. The extent of child poverty will be monitored by using the two (60% of median after housing costs) income poverty lines, one relative and one absolute as described in Figure 2.5. This reinforces the use of the 60% median income AHC poverty line as the semi-official poverty line in New Zealand.

CPAG believes the relative, 60% AHC poverty measurement, provides the best basis for examining the position of the poorest in relation to the rest of the community, a critical consideration in looking at poverty levels. However, it is necessary also to monitor fixed-value line 60% AHC poverty as any worsening on this measure means that there are more families who are not only relatively worse off but are also worse off in absolute terms. Furthermore however, counting children below a particular level of income as 'in poverty' needs to be supported with independent data on current living standards.

Why did child poverty change 1980s-2000s?

The benefit cuts in 1991 significantly increased poverty rates generally, but particularly for children. Child poverty rates rose steeply to unprecedented levels in the mid-1990s on both the constant value (35%) and the relative measure (29%) after housing costs as shown in Figure 2.5. From the late 1990s to 2007, better economic conditions helped improve the constant value poverty rates, and the relative rate also fell.

When the Government finally acted on child poverty by improving family assistance with its Working for Families (WFF) package (see chapter 6), child poverty rates fell from 28% in 2004 to 22% in 2007 (using the 60% of median relative income threshold). WFF transferred considerable financial support to low- to middle-income 'working' families with children, who also gained from improvements in employment in this period.



But by 2009, after the early impacts of the global financial crisis, the relative AHC child poverty rate had risen to 26%. Using the fixed line, the 2010 child poverty rate was around 22%, the same as in 2009 and in the 1980s (B. Perry, 2010, p. 84). The fixed line child poverty rates reflect the stagnation in real terms of low incomes over this period. In the meantime, real incomes have risen and the median income (and the poverty line) is higher in real terms. As Figure 2.5 shows, in 2010, the AHC 60% moving line child poverty rate of 26% was double the 13% of the mid-1980s. Figure 2.5 also shows, consistent with the WFF focus on families in work, using the more stringent poverty line of 50%, by 2010, 16% of children remained in poverty, only a marginal improvement from 2004 when 19% were below this line.

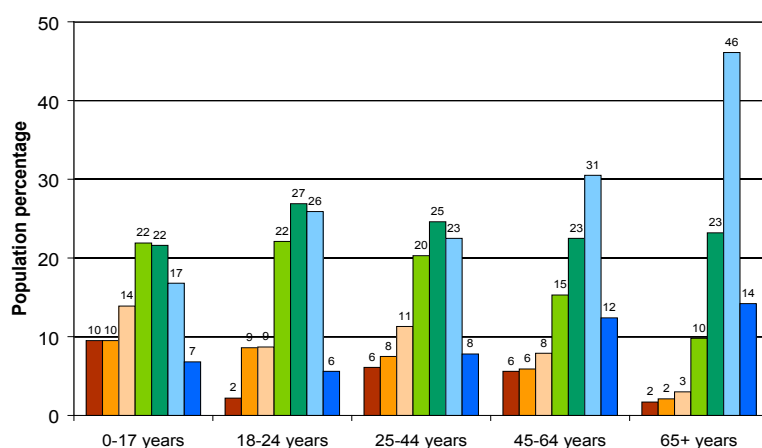
### Measuring living standards

Figures 2.4 and 2.5 above use poverty lines based on income. But a lack of income is only one aspect of poverty, albeit a critical one. A living standards approach developed in the last decade measures a number of other important components of living standards. While it is difficult to find a precise and agreed measure for an ‘adequate standard of living’, the Living Standards reports from the Ministry of Social Development provide a very good basis for establishing such a measure in New Zealand (Jensen, Sathiyandra, & Matangi-Want, 2007; Perry, 2009b).

The Economic Living Standards Index (ELSI) covers the full spectrum of material well-being from low to high living standards and is based around four components: ownership of goods; extent of economising; participation in social life; and a self-rating.

The position of different age groups on the living standards measures are shown in Figure 2.7. The lowest living standards (severe, significant and some hardship) are reflected on the left hand of each age band, with improved living standards reading across to the right. In New Zealand in 2004, 26% of children were living in serious or significant hardship, compared to 4% of those aged 65 and over (Ministry of Social Development, 2006b). By 2008, reflecting the WFF spending, the numbers had dropped to 19% of children in these categories of hardship (Perry, 2009a).

**Figure 2.7. Distribution of ELSI-3 scores by age group (2008)** (Source: Perry, 2009b, p. 50)



These poorest children in New Zealand are found disproportionately in sole parent households, with the hardship rate for sole parent families around four times that for those in two-parent families (39% and 11% respectively). But sole parents who are working have a hardship rate of only 20%, well below that for sole parent beneficiary families (54%). Overall beneficiary families with dependent children have a hardship rate of around five times that for working families with children (51% and

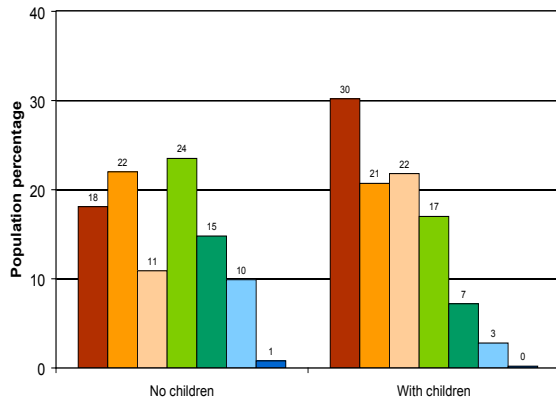


11% respectively). Their living standards profile is worse than for other beneficiaries as Figure 2.8 shows. However, importantly, as Perry (2009a, p. 53) notes:

*as there are many times more working families than beneficiary families, there are around the same number from each group in hardship – around half the children in hardship are from working families.*

**Figure 2.8. Distribution of ELSI-3 for beneficiary EFUs by presence of children (2008)**

(Source: Perry, 2009a, p. 51)



The next living standards survey is not until 2012, but some data in the Household Economic Survey that may be used to update the living standards measure annually.

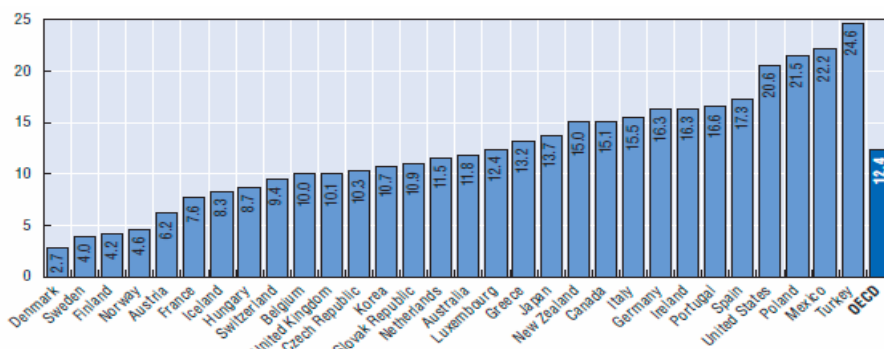
### Child Poverty Internationally

Child poverty in comparative studies is often measured by the proportion of children with an equivalised family income below 50% of the median family income of the total population (OECD, 2009a, p. 34). On this indicator, all the Nordic countries are outstanding performers. Denmark, for example, has around one in 40 children being poor, while as many as one in four children in the US live in poor families, despite it being one of the richest countries (Figure 2.9).

On a broader basis, the OECD report uses three indicators to measure the material well-being of children: the average disposable income in families with children under age 18; a relative poverty rate for children under 18 and the proportion of 15 year olds deprived of basic necessities for education

**Figure 2.9. Percentage of children living in poor households in OECD**

(below 50% of median equivalised income), circa 2005 (OECD, 2009a, p. 34)



Note: The child poverty measure used is the proportion of households with children living on an equivalised income below 50% of the national median income for the year 2005. Children are defined as those aged 0-17 years. All OECD countries are included.



relevant to school performance (OECD 2009a, p.33). On that OECD measure, New Zealand ranked 21<sup>st</sup> of the 30 countries included (OECD, 2009a, p. 23, Table 2.1).

It is now recognized that the first few years of a child's life are the most critical for the child's development (Gluckman & Hayne, 2011). It is therefore concerning that OECD (2009b) figures appear to show New Zealand to be one of the lowest investors in early childhood, and have one of the worst outcomes for children (Grimmond, 2011).

The OECD collect 20 indicators of child well-being such as suicide rates, infant mortality, low birth weight, proportion of children in overcrowded homes, literacy, low income, and teenage births for member countries. For youth suicide for example, New Zealand's rate is 15.9 per 100,000 15-19 year olds, compared to Greece's rate of 1.3. New Zealand does 12.2 times worse, and has the worst ranking in the OECD. Obviously it is important that each country has measured each indicator the same way. These allow comparisons on each indicator but the OECD does not itself calculate an overall index of child well-being, pointing to the limitations in the data and lack of an agreed way to do it (OECD, 2009b).

Grimmond (2011) does attempt a rough and ready calculation of an overall relative ranking by averaging each country's relative performance for each indicator. The lowest overall scores, he suggests, indicate the best overall child outcomes. While international comparisons are always fraught with difficulties, New Zealand's 28<sup>th</sup> position out of 30 OECD countries is indicative of poor well-being outcomes for children. Comparisons of spending on children internationally are equally fraught, but as to be expected, low spending is associated with poorer outcomes. However, Grimmond (2011) highlights that the Netherlands, with very good well-being scores, spends less than other high scoring countries. This suggests that policy design is of great importance.

The figures for New Zealand show spending is well under the OECD average, but they predate the Working for Families package. If more recent well-being figures do not show improvement, it may be that the extra spending has been less effective than it could be.

Why does child poverty matter?

The New Zealand Treasury captures one important reason for the focus on poverty:

*Typically those with better health status tend to have greater productivity, higher incomes and longer working lives, all of which provide an opportunity to accumulate greater net wealth.*  
(Anastasiadis, 2010, p. 33)

There is, however, an even more fundamental consideration, namely that children only have one chance to grow and develop and the resources and opportunities which they receive as children are critical to them as children and also affect their adult lives. Children cannot alter these resources and opportunities for themselves; adults, both parents and the wider society, determine the outcomes for children. Children have the right to a stable and happy, safe, secure and fulfilling life as children regardless of whether that makes them more productive in the economy later.

A potentially important influence on the health status of an individual as a child is the socio-economic status of their parents, as reflected in, and measured by, the parent/s' levels of education, income, and occupation. A related question is the extent to which childhood health status influences their subsequent education and labour market outcomes as adults.<sup>12</sup> For example, Kaitiaki in Northland

12 Enright and Scobie (2010, p. 68) suggest that health could play a role in the intergenerational transmission of economic status.

is one of the poorest regions in New Zealand: 49% of children were identified as being born in the bottom two most-deprived deciles (Rudd, 2010). A research project in 2010 found that the number of rheumatic fever cases in Northland is increasing, and one in 100 children had heart damage caused by previous undiagnosed rheumatic fever, which starts with an untreated sore throat (Department of Labour, 2011b). The New Zealand Medical Association Journal says rheumatic fever and the heart disease it causes reflect “gross and intolerable health inequalities” (J. McGregor, 2011, p. 19). All these indicators point to the likelihood of significant economic and social hardship and poverty for these children’s adult lives.

Another reason to be concerned about child poverty is that generational cycles of high income are common in the rich countries, but so are cycles of low income: in the US almost 50% of children born to low-income parents become low-income adults. The rate is also high in the UK at 40%, and in Canada at about 30%. Even in the Nordic countries, where overall child poverty rates are low, a disproportionate fraction of low-income children become low-income adults (Corak, 2006). As societies, we need to protect children from poverty, both for their own well-being and development as children and with a view to longer-term economic and social outcomes; refusing to make this investment and commitment is a recipe for economic and social failure, a failure which is both predictable and preventable (Gluckman & Hayne, 2011).

The discussion in this report demonstrates that child poverty is not inevitable but is the avoidable consequence of badly designed or inadequately considered policy. Figure 2.3 above shows that, while a higher proportion of the populations in the US and Australia experience poverty, a greater percentage of *children* in New Zealand than in Australia experience poverty. Overall, New Zealand’s policies have resulted in very few of our elderly experiencing poverty, and we have succeeded in this more so than the US, the UK, Australia or even Norway. If we can achieve this outcome for our aged population, we can develop, implement and resource better policies to achieve it for our children.

In the year ended June 2011, with GDP of around \$200 billion, nearly \$9 billion was spent on New Zealand Superannuation (NZS), a universal pension provided to approximately 500,000 eligible superannuitants, while only \$1.7 billion was spent on the Domestic Purposes Benefit which is used to support most of the 235,000 children and their parent/carer living in beneficiary households (see Table 2.3). There seems to be little intergenerational equity in the government’s treatment: support for superannuitants has been very effective in preventing poverty among older New Zealanders which is a good thing, but equivalent levels of support have not been provided for children.

### Children, poverty and social security

While, as indicated above, child poverty is not limited to sole parent beneficiary families, such families are significantly over-represented among those living below the poverty line. Table 2.5 shows the numbers and age distribution of children currently living in households receiving a benefit; most of these are children living in sole parent households in receipt of the Domestic Purposes Benefit (DPB).

**Table 2.5. Ages of children dependent on recipients of a main benefit**

(Ministry of Social Development, 2011)

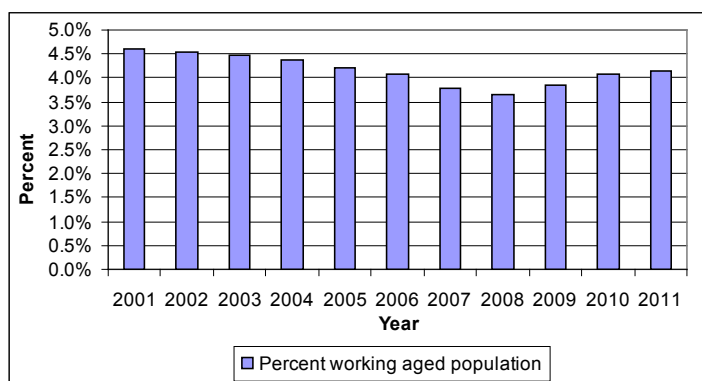
Age of child at the end of June	2006	2007	2008	2009	2010
	Number	Number	Number	Number	Number
	Children dependent on working-age recipients of a main benefit <sup>1,2</sup>				
0–4 years	66,478	63,122	63,947	72,693	78,264
5–9 years	65,579	59,808	57,585	62,512	65,079
10–13 years	48,018	43,777	42,343	45,514	47,578
14–17 years	39,522	36,914	35,233	38,908	41,286
18–19 years	1,747	1,703	1,570	1,678	2,146
<b>Total children dependent on working-age clients</b>	<b>221,344</b>	<b>205,324</b>	<b>200,678</b>	<b>221,305</b>	<b>234,353</b>
	Children dependent on other recipients of a main benefit <sup>1,2</sup>				
<b>Total children dependent on other clients</b>	<b>1,171</b>	<b>1,070</b>	<b>1,081</b>	<b>1,161</b>	<b>1,054</b>
	All children dependent on recipients of a main benefit <sup>1,2</sup>				
<b>Total</b>	<b>222,515</b>	<b>206,394</b>	<b>201,759</b>	<b>222,466</b>	<b>235,407</b>

Employment statistics in the recession demonstrate that women and young people are the expendable workers. The number of people receiving the unemployment benefit rose during the December 2010 quarter to reach 67,084 people, the highest figure in more than six years, and 30% higher than December 2005. Younger people, aged 18–24 years, made up 34% (17,000) of the 44,000 increase in those unemployed, although they comprise only 17% of the working-age population (Johnson, 2011b, p. 31). For sole parents, most of whom are women, employment opportunities gained during the boom years were lost during the recession.

Figure 2.10 shows the trends in the proportion of the working age population receiving the DPB during the last five years, trends which reflect changes in the employment prospects. In 2011, despite the recession, there is still a smaller percentage of the population in receipt of this benefit than there was in 2001 (4.1% compared with 4.6%). However, Figure 2.10 also demonstrates that the numbers on the DPB in 2011 are as high as they were in 2006 when the work incentive tax credit in WFF was introduced (see Chapter 6).

**Figure 2.10. Trends in proportion of working-age population receiving Domestic Purposes Benefit at end of March 2011**

(Source: MSD Benefit Fact Sheet: <http://www.msd.govt.nz/about-msd-and-our-work/publications-resources/statistics/benefit/2011-national-benefit-factsheets.html>)



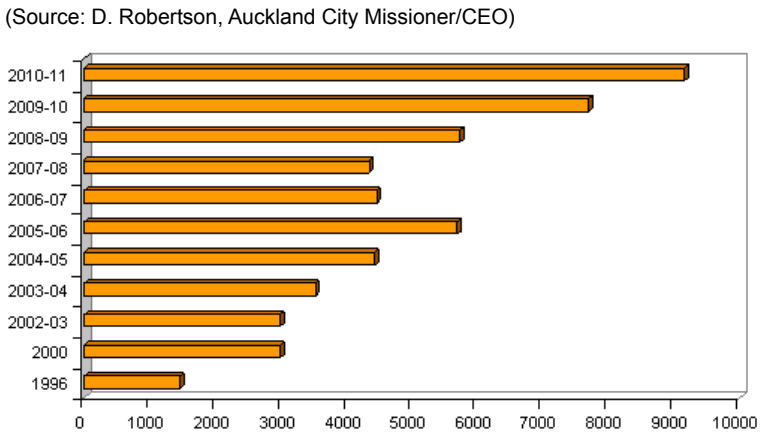
Presentations at the Welfare Forum at the University of Auckland in September 2010 highlighted the many difficulties experienced by sole parents, and hence their children, in a recession when the policy focus is on paid work.<sup>13</sup> Interviewees in CPAG's *What work counts?* also reported major difficulties in both accessing and maintaining employment (Dale, Wynd, St John, & O'Brien, 2010).

As well as entrenching poverty in these sectors of the population, the absence of employment opportunities for sole parents and young people and the strengthened discourse around 'welfare dependency' as exemplified in the Ministry of Social Development's Future Focus literature and the WWG's reports, cast them in the role of the undeserving poor. The noticeable change in the public policy rhetoric from *welfare* to *workfare* has significant consequences for children, as is reflected in this report.

What is child poverty like in 2011?

The statistical data on inequality and poverty provides a range of useful information about the position of children and families, but the nature of their collection via surveys means that the latest available figures do not necessarily reflect current conditions. It is therefore useful to monitor other indicators. Foodbank usage is one of those indicators.

At the Auckland City Mission, a major centre co-ordinating 70 foodbanks in Auckland and Northland, demand for food parcels climbed through the economic boom years, decreased a little in 2006-8, but by 2008-9 it was climbing again approaching 10,000 parcels by the close of the June 2011 year. That pattern of demand, shown in Figure 2.11, is mirrored in other parts of the country. Mangere Budgeting Service also reports a large increase in demand in 2011. This foodbank tries to give no more than three food parcels in six months to any given family because they don't want to be seen as a crutch, but chief executive Darryl Evans says: "when you know someone is genuinely not able to feed the kids, who am I to say no to them?" (S Collins, 2011).



The New Zealand Council of Christian Social Services' (NZCCSS) Vulnerability Report (2011, p. 1) notes that, between March 2009 and March 2011, prices overall increased by 6.6% (food prices by 6%, and petrol by 30%), but average hourly earnings only increased by 3.4%. Early childhood education charges increased by 11.7% in 2011 alone (2011, p. 2). It is not surprising, then, summary instalments (an alternative to bankruptcy) have increased dramatically (2011, p. 6), and more families in desperation are turning to loan sharks (see chapter 14, Social Hazards).

These indicators of social distress are paralleled by reports of third world diseases, homelessness, poor dental health, hunger and family dysfunction as discussed in the following chapters.

13 See Proceedings of the Welfare Forum 2010 at [www.cpag.org.nz](http://www.cpag.org.nz)

Despite the wealth of information on the levels and significance of poverty and inequality, and the importance of ensuring a minimum acceptable community standard, the editorial of the February 2011 issue of the *New Zealand Medical Journal* reports:

*Childhood diseases related to poverty and crowded housing are still prevalent in New Zealand<sup>14</sup> and are a national shame... Recent OECD data indicate that New Zealand spending on children is considerably less than the OECD average (OECD, 2009b). The biggest shortfall is for spending on young children on whom New Zealand spends less than half the OECD average. The OECD concludes that New Zealand needs to take a stronger policy focus on child poverty and child health. (Sharpe, 2011)*

Child poverty in Aotearoa continues to reflect how little value is placed on the needs of children. Yet it would be more rational, if only for reasons of self-interest, to provide better conditions for all the children in New Zealand. Like the rest of the Western world, our population is ageing numerically and structurally. Although we have the highest birth rate in the developed world, maintaining a 'replacement' level at 2.1, almost all future growth will be at the older ages. We need to prepare, as Jackson (2011) argues, for dramatic changes in the ratio of young to old.

In 2011 in New Zealand at least one in five children lives in severe or significant hardship, and at least one in four children lives below the semi-official poverty line. With the consequent limitations on their long-term health, education, and ability to participate in society, how will increasing numbers of elderly be supported?

## Recommendations

- Adopt an official poverty line at 60% of the contemporary median, disposable, after housing costs, household income;
- Also monitor poverty on a fixed line basis;
- Supplement these measures by regular surveys of hardship;
- Set net income for those on benefits so that no-one is under the poverty line;
- Pledge to end child poverty in New Zealand by 2020;
- Acknowledge the vital social and economic contribution made by good parenting;
- Create a senior Cabinet position with responsibility for children, such as a Minister for Children, to support the move toward a child-centred approach to policy and legislation; and fund child-impact assessments of existing national and local policies;
- Monitor all major indicators of child poverty and report these on a regular basis with specific target reductions to be met on the way to ending child poverty by 2020.

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<sup>14</sup> New Zealand Child & Youth Epidemiology Service (2009).

# Chapter 3. Work, Families and Poverty

Mike O'Brien,<sup>15</sup> Louise Humpage<sup>16</sup> and Donna Wynd<sup>17</sup>

## Introduction

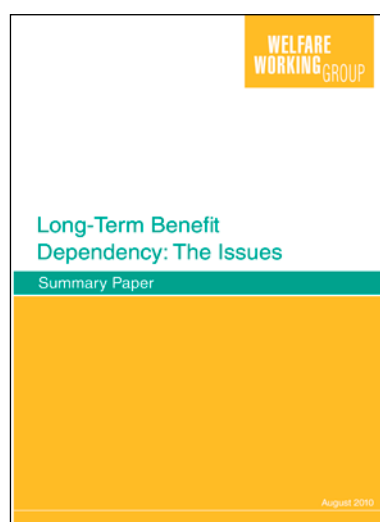
*Left Behind* (2008) concluded by noting that the reforms to social assistance which had been established to that point:

*not only place more of the burden of poverty on the shoulders of the poorest families, but also fail to acknowledge, let alone address, its underlying causes. The rhetoric around welfare reform, stripped of its doublespeak, carries a simple message: the only valuable contribution a person can make to society is an economic one.... As with the costs of global warming, it is time the debate broadened to consider what sort of future we want for our children and grandchildren.... New Zealand's welfare reforms are mean spirited, lacked vision, and risk further eroding our social cohesion.* (St John & Wynd, 2008, p. 44)

The arguments expressed then have been reinforced by the developments in welfare provision and coverage in the three years that have elapsed since that report. Indeed, as this chapter and others in this volume indicate, that emphasis on work and the associated neglect of children's needs has become more strident. The 'mean spirited' approach, lacking a constructive and positive vision and eroding social cohesion have been consolidated and strengthened by subsequent policies, reflected most recently in the reports from the Government-appointed Welfare Working Group (WWG). The task of this chapter is to set out those changes and, equally importantly, to locate the changes within a broader focus on welfare and welfare reform. This is both in terms of the international debates on welfare and welfare provision and in the light of the evidence around the effects and consequences of the directions for reform.

## Welfare to Work

The current (2008–2011) government's approach to social security and income support has been reflected in the Minister of Social Development and Employment, Paula Bennett's phrase: "an unrelenting focus on work". While undoubtedly containing an element of political rhetoric, it does capture this Government's focus and emphasis as reflected in both the terms of reference given to the WWG, and the Group's reports (Welfare Working Group, 2010a, 2010b). The terms of reference were focused heavily on reducing benefit 'dependency' (and welfare costs) by moving beneficiaries into paid work wherever possible; making beneficiaries 'independent'; and reviewing welfare delivery. Framed within a very loose terminology of 'welfare dependency', the WWG produced a range of recommendations based around eight themes. These themes were: a stronger work focus from more people; reciprocal obligations; a long-term view; committing to targets; improving outcomes for Māori; improving outcomes for children; a cross-government approach; and more effective delivery (Welfare Working Group, 2011, pp. 1-2).



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Although the whole process was predicated on the alleged problem of ‘dependency’, the term itself was simplistically defined as six months’ continuous benefit receipt. The frame within which the analysis, discussion and recommendations was built is captured neatly in the discussion on reciprocal obligations:

*individuals who enter the system who can work should take all reasonable steps to secure paid work and they should be supported and encouraged by policy settings and a responsive service delivery agency to find paid work.* (Welfare Working Group, 2011, p. 2)

The WWG’s terms of reference explicitly excluded from their consideration “adequacy of income from welfare” (other than in the context of the gap between welfare and work), National Superannuation, or the tax benefit interface and Working For Families Tax Credits (Welfare Working Group, 2010d). By excluding these areas from the WWG’s consideration and by framing the discussion primarily as an issue of beneficiary behaviours, Government and the WWG were building on an approach to social security that had gathered momentum throughout much of the previous decade. However, the WWG took the approach much further with its myopic focus on paid work and on the labour supply dimensions of welfare reform. The WWG’s focus on changing the lives and behaviour of beneficiaries, and its failure to attend to the demand for labour in the context of a volatile labour market (other than by passing anecdotal reference to the submissions of some employers), were accompanied by a complete failure to explore what welfare reforms might be required to meet goals of reducing and eliminating poverty and improving human well-being. For the WWG, well-being was equated with ‘participation in paid work’.

The WWG’s approach to welfare can only be described as residual and neoliberal, given that it is based very heavily around responsibilities rather than rights, and on a minimal welfare state. This emphasis on responsibilities (and particularly the responsibilities of beneficiaries) is reflected in a range of neoliberal ideas about, and approaches to, income support and social security in which state assistance is kept to a minimum and accompanied by processes of monitoring and control, and sanctions for non-compliance. We return to this issue below; first we need to locate the WWG’s approach alongside recent changes to income support and social security.

Increasing participation in paid work had been one of the goals of the two previous amendments introduced in 2007 to the Social Security Act 1964. The then Minister of Social Development and Employment, David Benson-Pope, included the following statement of principles, effectively instructions for those charged with administering the Act:



- a) work in paid employment offers the best opportunity for people to achieve social and economic well-being;*
- b) the priority for people of working age should be to find and retain work;*
- c) people for whom work may not currently be an appropriate outcome should be assisted to plan for work in the future and develop employment-focused skills;*
- d) people for whom work is not appropriate should be supported in accordance with this Act (Social Security Act 1964, Section 1B, inserted by section 23 of the Social Security Amendment Act 2007).*

The Social Assistance (Future Focus) legislation introduced by the National government in 2010 also heavily emphasised work rather than security or adequacy of social security. To signal this emphasis more clearly the Bill was renamed as the Social Assistance (New Work Tests, Incentives, and Obligations) Amendment 2010. In the original Bill, the government noted that “the main objective of the changes is to ensure a fairer system of social assistance with an unrelenting focus on work” (Future Focus Bill, 2010). The Bill then went on to say:

*the changes reflect and reinforce the principles that underpin the Social Security Act. These are that: 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; people for whom work is not possible at the moment should be assisted to plan for work in the future and develop employment focused skills. (Future Focus Bill 2010)*

The latter two changes in the legislation reflected this emphasis.

Significantly, the Ministry of Social Development’s Regulatory Impact Statement stated that it would be impossible to assess whether the legislation was effective:

*there is no research currently available which accurately quantifies the size and behaviour response from these changes in policies. This prevents estimates, with a degree of accuracy required, from being made of the number of people who will move from benefit to work over a year as a result of the proposed changes. (Ministry of Social Development, 2010a, para 4)*

Furthermore, the Bill was judged to be in breach of the Human Rights Act 1993, on the basis that it discriminated on the grounds of sex, marital status and family status, and that the limitation on the right to be free from discrimination which arose from clauses in the Bill could not be justified under the Bill of Rights Act 1990 (Office of the Attorney-General, 2010).

The approach taken in these legislative changes and in the Welfare Working Group’s report stands in marked contrast to the approach adopted by the Alternative Welfare Working Group (O’Brien et al., 2010a, 2010b). The Alternative Welfare Working Group was established by Caritas, Anglican Social Justice, and Beneficiary Advocacy Federation of New Zealand in response to the WWG process. It argued that changes to the welfare system required attention to a range of fundamental questions including: economic and employment growth; fair, appropriate and consistent treatment by staff in Work and Income; and improved benefit levels, particularly for families with children. Its approach to welfare reform argued strongly that the definition of “work” could not, and should not, be limited to paid employment but needed to extend more widely to include caring for both dependent children and dependent adults. In contrast to the WWG, the Alternative Welfare Working Group argued that welfare ought to be provided on the basis of “the unrelenting pursuit of well-being” (O’Brien et al., 2010b).

### Welfare, work and poverty

Far from reflecting and reinforcing the principles that underpin the Social Security Act, recent changes to the legislation signal a significant departure from a key goal of social security: benefit adequacy and poverty prevention. The 1972 Royal Commission on Social Security set out a basis for establishing benefit levels that it said should be based on a sense of belonging and participation. That is, benefits ought to enable beneficiaries to have a sense





that they belong in the society and are able to participate in the life of that society. Thus, the benefit levels should not lead to situations and experiences in which benefit recipients felt like outsiders who experienced lives, circumstances and standards of living significantly below those experienced in the society generally. The basis for establishing benefit levels were the wage levels of a building and engineering labourer, and the lower quartile of adult male earnings (Royal Commission on Social Security, 1972b).

Clearly, ‘belonging and participation’ no longer serve as a basis for assessing benefit levels. The research on living standards undertaken in recent years by the Ministry of Social Development (Jensen et al. 2006) demonstrates that significant numbers of families and households relying on benefit income have restricted or severely restricted living standards. Jensen et al. (2006, p. 101), for instance, reported that 22% of families with dependent children were living in severe or significant hardship. This compares with 10% of households without children and 4% of those aged over 65 (Jensen et al., 2006). Similarly, protection from poverty as a basis for minimum benefit levels is no longer stipulated in either the legislative requirements or policy frameworks for social security. Nor does protection from poverty serve as a basis for considering changes and developments in welfare provision, as seen in the deliberate omission of benefit adequacy from consideration by the WWG.

The WWG’s final report (Welfare Working Group, 2011, p. 37) refers to the need for incomes to be at “a decent minimum income level” for those who are unable to earn but there is no discussion of what this minimum should be or how it should be set. Indeed, the recommendation for a standard benefit set at the level of the unemployment benefit would cut the benefit rate for those receiving an Invalid’s benefit.<sup>18</sup>

The turn to work has been a feature of changes to welfare provision and delivery for over a decade, not just in New Zealand, but internationally. The emphasis has been on the role of paid work with special attention given to the labour force participation of groups such as single parents. Throughout the OECD sole parents have been “incentivised” to return to paid work through measures such as tax credits and subsidies for costs such as childcare. The use of sanctions to ensure benefit recipients respond as required has also been a feature of these reforms as have been wage subsidies for low-paid workers.

These international developments are located within a framework that has been given the heading ‘active citizenship’ by both policymakers and academic commentators. However, that term lacks



## FUTURE FOCUS

23 March 2010

The National-led Government believes that those New Zealanders who can work should be working. The Future Focus package aims to reform benefits by rebalancing obligations and support – to bring an unrelenting focus on work.

NEW OBLIGATIONS	PURPOSE	DETAILS
<b>PART-TIME WORK TESTING</b>	Shift the focus to what people can do, not what they can't	<ul style="list-style-type: none"> <li>Extend part-time work obligations to               <ul style="list-style-type: none"> <li>- DPB recipients with youngest child over 6.</li> <li>- Sickness Beneficiaries assessed as able to work.</li> </ul> </li> <li>Those who qualify will be required to work at least 15 hours a week.</li> </ul>
<b>REAPPLY FOR UNEMPLOYMENT BENEFIT AFTER 1 YR</b>	The long-term unemployed need active case management to get back to work	<ul style="list-style-type: none"> <li>Beneficiaries must reapply after 12 months and have a comprehensive work assessment each time.</li> </ul>
<b>GRADUATED SANCTIONS</b>	More flexibility will help sanctions to be applied when they should be	<ul style="list-style-type: none"> <li>Introduce a 50% benefit reduction as a sanction for the first failure of a work test.</li> <li>Simplify 100% suspension for ongoing non-compliance.</li> </ul>
<b>NEW CRITERIA FOR HARDSHIP GRANTS</b>	Encourage people to spend wisely when seeking extra help	<ul style="list-style-type: none"> <li>Repeat applicants for one-off hardship payments will need to show how they are managing their money.</li> <li>Occasional applicants get streamlined assessment.</li> </ul>
<b>RIGOROUS REASSESSMENT FOR SICKNESS BENEFITS</b>	Getting people back to work as soon as they are able	<ul style="list-style-type: none"> <li>Shorten the reassessment period to four weeks for the first two medical certificates.</li> <li>Compulsory reassessment after 12 months.</li> </ul>
<b>YOUTH TRAINING REQUIREMENT</b>	Ensure young people are in education, work, or training	<ul style="list-style-type: none"> <li>Young people on the Independent Youth Benefit required to be in education, work, or training.</li> </ul>

<sup>18</sup> Thus the WWG set aside the reasons for the varying rates of the varying benefits: whether or not there are children to be supported, or special health needs that involve extra costs.

clarity and precision (Andersen, Guillelmard, Jensen, & Pfau-Effinger, 2005; Andersen & Jensen, 2005). Furthermore, this lack of clarity and precision has been accompanied by a judgement in which ‘active’ citizenship is contrasted with ‘passive’ citizenship. The former is described as laudable and defined in positive terms while ‘passive’ citizenship is described in critical and negative terms, and is judged to be both ineffective and inappropriate. The WWG (2011) reports and earlier documents from Clark and Maharey (2001) incorporate these distinctions, although it must be said that the pejorative dimensions are stronger in the WWG approach, to which we will return below.

The significance of the emphasis on ‘paid work’ and ‘active citizenship’ in moulding public perceptions is twofold. First, it represents and reflects a significant political shift in the approach to social security, income support and welfare. It envisages a limited role for the state while emphasising greater responsibilities and reduced rights for beneficiaries. Second, and equally importantly in the New Zealand context, the new rhetoric has been accompanied by a punitive tone<sup>19</sup> and by a set of policies which have emphasised paid work. These policies have had serious harmful consequences for children living in households where their carer is not in paid work. Furthermore, in New Zealand, as illustrated in Table 3.1 below, the WWG (2011) moved beyond ‘active’ to ‘work-focused’, further removing from view the state’s obligation to provide support for its citizens:

**Table 3.1. Passive Welfare to Work-Focused Welfare** (Source: Welfare Working Group, 2011, p. 57)

Passive welfare	Work-focused welfare <sup>20</sup>
Focused on the provision of income support	Focused on helping people find paid employment
Work expectations, employment supports and payments reflect arbitrary benefit categories	Work expectation, employment supports, and payments are personalised to individual circumstances
Limited obligations and low levels of investment in employment supports	High levels of obligations and support to secure employment (even prior to receiving financial assistance)
Limited organisations incentives to reduce long-term dependence	Strong organisational incentives to reduce long-term dependence

The focus on the *responsibilities* of beneficiaries to obtain paid employment rather than their *right* to income support reflects an important and fundamental shift in the conception of citizenship and in the relationship between the individual and the state. Extension of the social rights of citizenship has been a hallmark of the New Zealand welfare state, and welfare states internationally, through much of the latter half of the 20th century. However, the last two decades have seen increasing emphasis on responsibilities, framed within the language of ‘active citizenship’ (Hvinden & Johansson, 2007). The ‘active citizen’ is responsible for his/her own welfare and the role of the state is described as ‘empowerment’, reflected in greater individual responsibility, rather than on service provision and enhancement and extension of the rights of citizens.

Anderson and Guillelmard (2005) suggest that the prospects and implications of the emphasis on active citizenship remain uncertain; however, the outcomes of recommendations from the WWG, if implemented, are not uncertain. In particular, the lack of attention to the interests, position and needs of children in households reliant on a social security benefit can only mean the consolidation and

<sup>19</sup> The punitive tone has not been so much in evidence elsewhere.  
<sup>20</sup> While the term ‘work focused welfare’ is used by the WWG, it is used in the context of ‘active’ welfare, the word ‘active’ being used in the headings for the next two paragraphs in the Report after the Table.

entrenchment of their poverty and severely restricted living standards. Those children whose parent/ carer is able to secure paid work and sufficient hours of work to be eligible for income supplements through the tax system may move above the poverty line. However, citing the OECD, the WWG states that if New Zealand could achieve rates of sole parent employment in line with the **best performing** OECD countries, we could reduce child poverty rates by **one quarter** (Welfare Working Group, 2010ba). This would still leave between 120,000 and 150,000 children living in poverty. The WWG is completely silent on the prospects for an adequate or secure income for this group of children, and on how the emphasis on paid work for beneficiary families with children has already been a major contributor to high levels of child poverty in New Zealand.

There is, of course, a fundamental contradiction in the emphasis on paid work. If one partner in a relationship is working more than 30 hours, then the other partner is not required to undertake paid work in order to receive government financial assistance through in-work tax credits. Caring work is clearly of lesser status than paid work and it is only a choice for those who have an existing supporting relationship.

Alongside the threat of poverty faced by those relying on income support payments, there is an even more fundamental consideration arising from the narrow focus on paid work. The emphasis on paid work denies and denigrates the significance of the work of caring, particularly caring for dependent children and, to a lesser extent, caring for dependent adults. Although not always explicitly articulated, the focus on paid work carries both a suggestion that caring for dependent children is not 'work' and, perhaps even more significantly, carries an implication that such work is not particularly important. While official statements may say otherwise, the consistent message contained in policies that aim to limit the provision of social assistance is that 'caring work' is secondary and not highly valued. Indeed, it is as if caring work is an annoying inconvenience and interruption to the important real and meaningful purpose of human life: engaging in paid work.

In addition, the WWG's emphasis on responsibilities rather than rights incorporates a far more punitive approach to welfare. Alongside the heavy emphasis on paid work, this approach includes a series of recommendations around monitoring and control over the lives of beneficiaries (particularly young people) with the threat of sanctions for non-compliance. Such sanctions and controls are to be extended to beneficiaries who have an additional child while receiving a benefit; those who might need additional financial assistance because of inadequate benefits; teen parents; those who do not meet their obligations; and those who do not meet alcohol or drug test requirements (Welfare Working Group, 2011, pp. 22–23). While the WWG's discussion on sanctions notes a requirement for monitoring and safeguarding the interests of children in households where sanctions are applied, there is no guarantee that those children would be protected from poverty; indeed they are likely to be among the most vulnerable children.

Increased applications for hardship grants and food parcels have been direct consequences of the poverty arising from inadequate benefit levels. In 2009, 201,384 Ministry of Social Development clients were given a Special Benefit or Temporary Additional Support; this compares with 117,276 the previous year (Ministry of Social Development, 2010b, p. 152, Table TS.2). This increase has occurred in a policy environment in which there has been closer scrutiny of applications, an approach which will be tightened even further if the recommendations of the WWG (2011) are implemented. Those recommendations include proposals for management of the benefit for some beneficiaries and greater use of budgeting services. The increased demand resulting from changes which require

referral to a budgeting service as a condition for receipt of some hardship grants has led to budgeting services requesting additional funding from government to meet this demand (New Zealand Herald, 2010).

It is clear from all recent research that children in workless households face the highest risks of poverty and lower living standards (Johnson, 2011a; Perry, 2009a, 2009b). Paid work would improve the living standards for those children whose carer could obtain consistent and regular work which paid an adequate wage. However, the very high proportion of children in benefit households who will remain in poverty represents the failure of the 'work first' and 'unrelenting focus on work' approaches. The failure of work first is also evident in the number of children in poverty in households where at least one adult is in full-time work. Current approaches to welfare reform mean that those children will live in even more severe hardship than they do currently. Tellingly, there is no discussion in the WWG report about the need for Government's social and economic policies to be focused around employment and job creation and job growth, a key dimension of both reciprocal obligations and the 'work first' focus. It is here that the responsibilities and individualising aspects of the WWG's approach to 'active citizenship' are most clearly and starkly revealed.

In the book *Why We Need a New Welfare State* (2002), Esping-Andersen argues that changing economic and social frameworks and structures require shifting the basis upon which social security and income support systems have been built and developed. He argues that the changing nature of work and issues surrounding children demand changes in government welfare provision. Significantly, he argues for a welfare framework which provides effective support and protection for **all** children; and one in which the changing nature of work is reflected in the regulations linking employment and welfare support. Running through his discussion is a strong emphasis on ensuring that income support and social security provisions reduce levels of poverty and contribute to, and enhance, human well-being. Those aims, goals and objectives are completely missing from the direction of welfare reform in New Zealand over the last 20 years. Implementation of the recommendations of the WWG and continued pursuit of the existing directions in welfare reform will only take us further away from achieving those goals, and broaden and deepen child poverty in New Zealand.

## Recommendations

- Review and adjust benefit levels to ensure that families with children are not below the poverty line;
- Acknowledge the work of caring for dependants by ensuring that this work is treated as being of equal status to paid work;
- Reject WWG recommendations which fail to meet the above objectives and which treat beneficiaries as second-class citizens.

# Chapter 4. The Whānau Ora Approach

Mamari Stephens<sup>21</sup>

## Introduction

To what extent might the Whānau Ora approach, as launched in April 2010, really benefit the lives of Māori children of those whānau in, or on, the edges of poverty?

At one level, it is appropriate to consider how the Whānau Ora approach will be applied within the edifice that comprises our social security system, including welfare benefits. Various commentators have presumed that Whānau Ora is to be “the biggest shake-up of the welfare system in decades” (New Zealand Herald, 2010), or that Whānau Ora is an initiative that will fill in “gaps in the modern welfare state” (Espiner, 2010). Indeed, Māori are assumed to be empowered to determine their own welfare outcomes: “70 years after the introduction of the welfare state, Māori can finally do welfare their own way” (Armstrong, 2010). Notwithstanding this commentary, there is some considerable risk that the Whānau Ora approach will have little impact in decreasing the numbers of Māori on benefits, although it may well enable those who remain on benefits to be better able to survive and perhaps alleviate financial distress.



This risk arises because social security is fundamentally dependent on the notion of the autonomous individual who suffers one or more identifiable social contingencies (such as unemployment or old age, for example). Social security operates to enable the state to step into that individual’s shoes by way of providing income replacement or income adjustment (and some other limited types of assistance) until such time as that individual can re-enter the economy. The entire benefit structure, as it has been implemented and enacted since 1938, is simply anathema to the Whānau Ora collective and tikanga Māori approach. There will be ways to incorporate the Whānau Ora thinking at a strategic level within this system, but history shows the wrecks of a number of ships that have run aground on that shore. The 1986 *Pūaoteatātū*, report, and Department of Social Welfare bicultural strategy (“Te Punga”) were important initiatives of their time, aimed at improving Māori engagement in achieving better service delivery to Māori and better social security outcomes for Māori (Department of Social Welfare, 1994; Ministerial Advisory Committee on a Māori Perspective for the Department of Social Welfare, 1988). Arguably, none of these initiatives has truly achieved either aim.

The context in which Whānau Ora evolved is also important for understanding the impact the approach might have in the alleviation of poverty, including child poverty. At a political level, Whānau Ora is another result of ongoing Māori efforts to effect real decision-making power *over* social outcomes for Māori as well as *improving* those social outcomes for Māori. Put another way, Whānau Ora seeks to achieve for Māori both true tino rangatiratanga and the real benefits of equal citizenship within social policy areas. In this respect, there are lessons to be learned from what has already been done. Such lessons can be derived from certain programmes already in existence that comprise current child-centred or whānau-focused initiatives such as the Early Start and Family Start initiatives.

Of prime importance is the centralisation of whānau in the design and implementation of the Māori Health Strategy, *He Korowai Oranga* in 2002. The experiences in the health field of nearly a decade

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under the Māori Health Strategy suggests that Whānau Ora, in its application to social services, is likely to provide real and substantive Māori decision-making and engagement in social policy making as well as Māori design and implementation of social initiatives within communities (Ministry of Health, 2002 , p.iii). However, as suggested by the experiences in health and in existing family-centred programmes, it may take at least a few years for such changes to result in measurable lessening in the inequities that create poverty within Māori whānau and communities.

Given the high likelihood that the Whānau Ora approach will struggle to make an impact on the implementation of the social security system, and the considerable time needed for increased Māori decision-making and engagement in social policy to result in measurable change in poverty rates for whānau Māori, poverty, for many Māori children, will remain the daily reality in the short to medium term.

Māori and Poverty

There is no need to replicate the enormous amount of data which show clearly the economically disadvantaged position of Māori. In fact, the Whānau Ora Taskforce Report (Whānau Ora Taskforce, 2010, p. 15) summarises this:

*Despite limitations, current data suggest that whānau members face a disproportionate level of risk for adverse outcomes, as seen in lower standards of health, poorer educational outcomes, marginalisation within society, intergenerational unemployment and increased rates of offending. Further, in response to socio-economic hardship, a range of problems are likely to co-exist within the same household, affecting health, employment, behaviour, education, and lifestyle simultaneously. In addition to socio-economic determinants, some studies have shown that even when social and economic circumstances are taken into account, Māori individuals still fare worse than non-Māori.*

Table 4.1 shows the extent of income inequality for Māori in relation to other ethnic groups: Between 1988 and 2008 median income for Māori increased by \$3,300 while for the population as a whole it increased by \$4,400.

<b>Table 4.1. Real equivalised median household income (BHC) by ethnicity 1988 to 2008 (\$2008)</b> (Source: Perry, 2009a: Table D.5)										
	1988	1990	1992	1994	1996	1998	2001	2004	2007	2008
Euro/Pakeha	25,100	25,000	22,500	22,100	23,000	25,100	25,600	28,800	29,500	31,000
NZ Māori	20,800	18,800	15,300	15,400	18,400	19,400	20,800	21,500	21,000	24,100
Pacific	20,400	17,900	16,200	14,500	15,900	17,700	17,100	19,600	23,000	22,300
Other	22,600	21,700	21,400	16,100	18,500	15,900	24,900	20,900	26,300	25,400
All	23,900	23,400	21,100	20,400	21,600	23,500	24,100	25,900	27,400	28,300

The disadvantaged position of Māori in relation to overall income inequality is reflected too in the hardship data in the early (as yet preliminary) data from the 2008 Report on Living Standards. Here too, the position of Māori is significantly worse than the population overall as demonstrated in Figure 4.1 below. The scale moves from ‘severe hardship’ on the left to a ‘very good’ standard of living on the right-hand side.

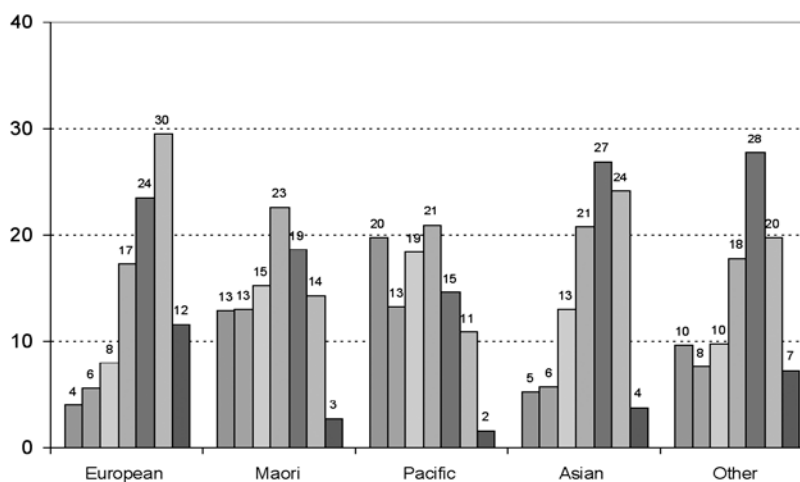
The 2008 Living Standards preliminary research also notes that Māori and Pacific households have a hardship rate two to three times higher than other ethnic groups. As recent Ministry of Social



Development data shows, Māori children are twice as likely as Pākehā to be living in a poor household at below 60% of the median household income (after housing costs are accounted for), a fact the report identifies as reflecting the relatively high proportion of Maori children living in sole parent beneficiary families and households (Perry, 2009a, 2009b).<sup>22</sup>

**Figure 4.1. Distribution of ELSI-3 scores by ethnicity, 2008 LSS**

(Source: Perry, 2009b, p. 52, Figure E2.6)



The context of Whānau Ora

### The idea

Rather than a defined programme, Whānau Ora is an idea or philosophy that underpins a framework for working with families. This framework is based on exploiting and increasing strengths within whānau rather than focusing on fixing the deficiencies exhibited by the individuals within that whānau. Interventions are created by whānau in conjunction with whānau support workers, and are aimed at ensuring whānau participation in the community and positive results for whānau instead of focusing interventions on individuals who present with complex needs. This is an approach that has been described as resonating not only with Māori, but with all Pacific peoples (Tu'itahi, 2010):

*a strengths-based approach is derived from the resilient and tenacious values and principles of the collective such as whānau or bigger human formations such as communities.*

### The framework

In order to give some structure and flesh to the original notion of Whānau Ora, a taskforce was created and charged with creating a usable framework for the implementation of the whānau-centred approach. This was to be an 'evidence-based framework that will lead to:

- strengthened whānau capabilities;
- an integrated approach to whānau well-being;
- collaborative relationships between state agencies in relation to whānau services;
- relationships between government and community agencies that are broader than contractual;
- improved cost-effectiveness and value for money.

<sup>22</sup> By June 2009, 43% of DPB recipients were Māori.

The nominated taskforce carried out some consultation and created the resulting Whānau Ora framework as represented in the diagram below (Figure 4.2).

**Figure 4.2. Whānau Ora Framework** (Whānau Ora Taskforce, 2010, p. 7)



The framework was presented to the Crown as being underpinned by six key principles (Whānau Ora Taskforce, 2010):

- **Ngā kaupapa tuku iho** (the Māori values, beliefs and obligations that guide a whānau in day-to-day life);
- **Whānau opportunity** (the notion that all whānau should have ‘chances in life that will enable them to reach new heights’);
- **Best whānau outcomes** (the understanding that the success of Whānau Ora is to be measured by increased whānau capacity to achieve well-being for Whānau and its members);
- **Coherent service delivery** (the establishment of unified intervention to ensure that the divisions and distinctions between agencies involved with whānau do not frustrate, subvert, or undermine the needs of the whānau);
- **Whānau integrity** (the presumption that all whānau have a code of responsibility that would ensure dignity, accountability and innovation. This principle is important to ensure that each whānau is strengthened in its ability to follow such a code, notwithstanding stressors or events that may undermine or subvert it);
- **Effective resourcing** (whānau must be resourced according to their needs, in order to achieve the best possible results for that whānau. Also, results must reflect the resources utilised with whānau, as demonstrated by clearly set out indicators of success);
- **Competent and innovative provision** (acceptance of the fact that to be successful, Whānau Ora will need to ensure skilled practitioners work with whānau who are able to “go beyond crisis intervention” to assist whānau to build their own capacity).



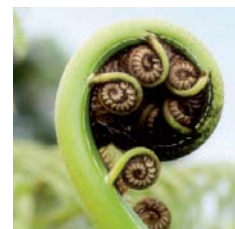
It is yet to be seen if, over time, the principles set out above will attain the sort of respected status that are enjoyed by other social policy instruments such as the Woodhouse Report enumerating the principles of the ACC scheme (Royal Commission to Inquire into and Report Upon Workers' Compensation, 1967), or the McCarthy Report that sets out retrospectively the principles upon which our social security system was deemed to be founded in 1972 (Royal Commission on Social Security, 1972a). Nevertheless the Whānau Ora principles and their framework deserve attention for the important characteristic that distinguishes the Taskforce's report from those earlier publications.

The entire social security system (comprising social assistance by way of benefits and social insurance by way of ACC) has, at its core, the concept of the individual who has been stopped from earning an income, or prevented from earning a full income due to the operation of a social contingency such as personal injury, childrearing, disability, or unemployment. While both the McCarthy and Woodhouse reports identify that such individuals belong in family units that also require support, and that the community is responsible to some degree for providing social security to those individuals, the mechanisms of delivery (such as income replacement and income adjustment) require engagement with an individual. Case management centres on individual needs, support is provided on the basis of individual deficiencies. The notion of the free individual is the core organising principle at the heart of our social security system, and also at the heart of our notion of criminal liability, the law of private obligations, and even at the heart of our democratic system.

The Whānau Ora approach subverts the primacy of the individual, and yet those who will implement the approach must continue to work within a legal, governmental and political system that is formed and informed by this principle. Some exploration of the nature of the social security system as it pertains to Māori may clarify the size of the obstacle Whānau Ora faces in trying to make headway in families that are reliant on support from that system.

### Māori and Social Security

Māori have had a complicated relationship with the New Zealand social security system from the passage of the Social Security Act 1938 and the more *ad hoc* welfare measures implemented before 1938. Despite consistent Māori efforts to adapt to and change the social security from the outside, unsurprisingly the system has been unable to deal effectively with Māori collectivist ways of living or desire for self-determination and sovereignty.



#### **Problems of individualisation of Māori needs**

Ultimately, as with other countries implementing formal social security (as opposed to informal social security relying on kin-based or charitable aid) the New Zealand social security system, in common with other industrialised nations, created an individualised system of entitlements whereby the State stood in for the (typically male) wage-earning labourer who, by reason of social contingency, had been excluded from working (Stephens, 2011, p.132). If a man lost his job, state-provided income replacement could ensure that the worker and 'his' family could at least survive at a very basic level, and the worker could eventually be returned to economic productivity. If a woman was widowed or deserted by her spouse, the state could then 'step into' the shoes of the absent male wage labourer, thereby ensuring that the family could survive and eventually return to economic productivity once the needs of the children no longer required full-time care, or could themselves enter into the labour market. Such a social investment would prove less costly to the state than the costs that might be

incurred if families were allowed to break down entirely by being forced into reliance on charity or family members.

It took a great deal of time for Māori to fit into this very limited picture of an economically productive society. Throughout the first half of the 20th century Māori were rebuilding after the traumas of the 19th century had decimated the population. As the Māori population began to rebound after World War II, a predominantly rural population with close ties to traditional tribal social and cultural structures transformed into a predominantly urban population, often separated from land and tribal structures and those traditional means of welfare.<sup>23</sup>

Considering the massive changes that took place in Māori society, it is interesting to note that Māori attitudes to the new social security system established from 1938 were decidedly ambivalent. Renowned Ngāti Porou leader, politician and scholar Sir Apirana Ngata on the one hand, feared that Māori would become increasingly disenfranchised from their traditional tribal lands and culture as a result of social security benefits. In his view Māori ought to be able to retain their tribal identity and provide for their own. On the other hand, other important Māori leaders such as T.W. Rātana, charismatic prophet and leader of the politically influential Rātana movement, saw important opportunities in the growth of the welfare state for Māori to attain a level of social equality that had been denied them (Cheyne, O'Brien, & Belgrave, 2005).



Rātana Church in Raetihi

Indeed, a citizenship-based discourse which emphasises commonality between Māori and Pākehā in New Zealand has a long history. Formal discrimination against Māori ended in 1935 with the election of the Labour Government, which cemented its alliance with the Rātana political movement in 1936 (Henderson, 1963). The movement provided successful Rātana candidates for the four guaranteed Māori electoral seats, and the alliance between Rātana and Labour pursued assimilationist policies that sought to achieve Māori equality with other New Zealanders and socio-economic development.<sup>24</sup>

The Māori contribution to New Zealand's role in World War II, as exemplified by the exploits of the Māori Battalion, also led to high Māori expectations that they would be accepted as full citizens within mainstream society and attain a level of control over their own affairs. For example, with the beginning of World War II, Apirana Ngata urged Māori enlist for military service in a 1940 pamphlet entitled *The Price of Citizenship*, an important expression of an idea of common citizenship as demonstrated by Māori and Pākehā participation in the armed struggle for national defence. Notwithstanding his view that universally applied benefits under the Social Security Act 1938 were, in large measure, dangerous to Māori abilities to manage their own destinies, he saw no contradiction in a full-throated support of the Māori war effort on the basis of shared citizenship:<sup>25</sup>

23 For a very useful account of the critically important role urbanisation has had in the reformation of Maori communities, see Durie (2005).

24 Māori have had guaranteed electoral representation since the passage of the Māori Representation Act 1867. For a full account of the establishment and history of the Māori seats see Wilson (2010).

25 "Response to war – Maori and the Second World War", URL: <http://www.nzhistory.net.nz/war/maori-in-second-world-war/response>, (Ministry for Culture and Heritage), updated 20 Oct 2008. See also Meredith (2000).

*We are participants in a great Commonwealth, to the defence of which we cannot hesitate to contribute our blood and our lives. We are the possessors of rights which we must qualify to exercise, also of obligations which the Maori must discharge always in the future as he has done in the past. We are of one house, and if our Pakeha brothers fall, we fall with them. How can we ever hold up our heads, when the struggle is over, to the question, "Where were you when New Zealand was at war?"*

Given the Māori sacrifice in World War II, hopes were high in the weeks and months leading up to the passage of the Māori Social and Economic Advancement Act 1945 (Hill, 2004). This new legislation was supposed to herald a new dawn of Māori cooperation and involvement in social decision-making with the State and the Native Affairs Department (later to be known as the Māori Affairs department, now defunct). In reality the new dawn of the post-war era heralded several grey decades where Māori aspirations were often submerged within the overall drive towards assimilation. Even during the height of the assimilationist era, many examples of differential treatment still persisted in practice. Such discrimination was brought to light in the *Pūaoteatatū* (Daybreak) 1986, report by the specially convened Ministerial Advisory Committee on a Māori Perspective for the Department of Social Welfare (Ministerial Advisory Committee on a Māori Perspective for the Department of Social Welfare, 1988).

In social policy the tension between ideas of common citizenship and long-lived notions of rangatiratanga is particularly starkly observed because social laws and mechanisms are supposed to be universally applied, tribal and community affiliation notwithstanding. Yet, in line with the notion that Māori have the right to control their own destinies, Māori have been consistent



in calling for greater control of resources and decision-making over Māori families and whānau development. This consistent thread can be seen throughout the 20th century, and continues today. The early drafts of the Māori Social and Economic Advancement Bill of 1945, for example, were drafted by a Māori working party convened by Eruera Tirikatene and included substantial measures for Māori decision-making and a reconfiguring of the Native Affairs Department that were mainly rejected. Such pressure for Māori control over social policy began to re-emerge strongly in the public view in the 1970s and 1980s (Hill, 2004).

Similarly the *Pūaoteatatū* report reiterated the call for Māori to have Māori control over decision-making for Māori social well-being (Ministerial Advisory Committee on a Māori Perspective for the Department of Social Welfare, 1988, para 72):

*As we travelled around the country, the most consistent call we heard was for Maori people to be given the resources to control their own programmes. We have responded to this in ways that do not discriminate against people of any culture while enabling Maori people to share and to control where applicable the allocation of resources in communities.*

Despite this ongoing call for Māori to have such control, the Hon. Pita Sharples also used a recent speech to underscore his concerns of an increasing prevalence for treaty settlements between iwi and the Crown to contain agreements on social provision, which in his view, despite the call of rangatiratanga, must remain a Crown responsibility (Sharples, 2010):

*Persistent disparities between Māori and non-Māori, and the failure of government to deliver services in ways that resonate with Māori communities, are ongoing. And they seem to require*

*claimant groups to spend valuable negotiations effort and funding on getting an assurance that government will do the basic job that taxpayers fund it to do. So I am extremely concerned about the development of social and environmental accords in Treaty settlements the need for these accords shows.*

This view encapsulates, to an extent, the conflict between the Māori drive to reclaim rangatiratanga while at the same time seeking to achieve social equality with other New Zealanders that can only be financed by the state. No other body exists other than the State with the resources to advance the equal participation of Māori in New Zealand society, or indeed the survival of large numbers of Māori throughout the country in times of need and crisis. Recently, measures to enhance or provide for more Māori input into the social security system specifically have focused on intensive case management, and the development of partnerships with some iwi in creating further and better job opportunities for Māori (Ministry of Social Development, 2010d). The social security system itself is neither challenged nor changed by these sorts of initiatives.

Whānau Ora, then, as a 'grand idea' and initiative may herald greater Māori involvement in decision-making with regard to social policy than has previously been achieved. A greater level of rangatiratanga, in the sense of greater influence and control over social policy may well be achievable. Whether such an achievement will enhance the citizenship and rangatiratanga for whānau Māori within the social security system is, as yet, questionable.

#### He Korowai Oranga

The collectivist whānau-centred approach is neither entirely novel nor new. As mentioned in the Introduction, the Whānau Ora approach primarily evolved out of substantial policy work done in the development of the Māori Health Framework, *He Korowai Oranga* in 2002. The overall aim of the strategy is "Whānau ora: Māori families supported to achieve their maximum health and well-being" (Whānau Ora Taskforce, 2010).

The Māori Health Strategy may have, in conjunction with other policy measures, some positive impact on health outcomes for Māori. Recent data analysis suggests a significant causal link between the implementation of pro-equity health strategies (incorporating *He Korowai Oranga*) and improving mortality indicators (Tobias, Blakely, Matheson, Kumanan Rasanathan, & Atkinson, 2009). This internationally reported research investigated trends in mortality rates in New Zealand for Māori and Pākehā between 1951 and 2006. In particular the study identified causal links between the neo-liberal reforms of the late 1980s and 1990s and widening disparity in mortality rates, as well as the implementation of pro-equity strategic health measures (incorporating *He Korowai Oranga*) and a narrowing of that disparity gap (Tobias, et al., 2009, p.1720):

*...the pattern seen in New Zealand of widening then narrowing ethnic health inequalities coinciding with neoliberal followed by pro-equity changes in social and health policies suggests that both changes in the distribution of social determinants and an appropriate health system response may be required to achieve timely gains in health equity. The New Zealand experience implies that action by the health sector alone is necessary but not sufficient to address health inequalities.*

The study also went on to suggest that the lag between the implementation of pro-equity policies and observable results may be relatively short (Tobias, et al., 2009, p.1720):

*Thus policies designed to improve daily living conditions and address the structural determinants of the health of indigenous populations (or ethnic minorities) by improving their relative economic position may yield health equity benefits within 5 years.*

Other more qualitative research carried out with Māori health providers indicates that there has been some ambivalence among providers about the effectiveness of *He Korowai Oranga* and the ability for the strategy to deliver actual health benefits for Māori at a practical level (Boulton, Simonsen, Walker, Cumming, & Cunningham, 2004).

While Whānau Ora evolved primarily from the health sector, other long-running “family centred” programmes managed by the Ministry of Social Development are also designed to assist whānau and work alongside whānau to achieve better whānau outcomes. Two examples of such intervention are Early Start and Family Start. These programmes will undoubtedly have some level of influence on the delivery of Whānau Ora, if only because many of the Whānau Ora providers will also be Family Start (and in Christchurch, Early Start) providers.<sup>26</sup> The experiences of these programmes may provide some important lessons for the delivery of Whānau Ora.

### **Early Start**

Early Start is a Christchurch-based initiative, funded by the Family and Community Services unit of the Ministry of Social Development, whereby family/whānau workers may be allocated to qualifying families to support those families with an early intervention programme from the time of a child’s birth up to 36 months to achieve better health, education and welfare outcomes.<sup>27</sup> A randomised trial-based evaluation of the Christchurch-based initiative was carried out in 2005, and the evaluation report acknowledged that 90% of the Early Start client base were in receipt of welfare benefits. Accordingly, the initiative included within it a range of measures designed to assist clients to achieve improved economic circumstances. The report stated (D. Fergusson, John Horwood, Ridder, & Grant, 2005, p.40):

*Encouraging family economic and material well-being: Since many participants in the Early Start programme were single parents, they were often subject to a series of economic limitations that spanned welfare dependence, economic deprivation and financial hardship. These difficulties in turn were likely to exacerbate other issues facing families. To address this issue the goals of Early Start spanned the following areas:*

- *Reducing levels of welfare dependence.*
- *Encouraging the use of budgeting and budgeting services.*
- *Encouraging workforce participation.*
- *Encouraging forward economic planning and saving.*



In the evaluation, Early Start clients and control groups were compared on a series of measures of economic and material well-being including welfare reliance; family income; family debt; parental workforce participation; and the adequacy of accommodation. While significant levels of success were observed for other aspects of the initiative there was no evidence that the intervention aimed at assisting Early Start clients to improve their economic fortunes had any observable effect on those

<sup>26</sup> See <http://www.tpk.govt.nz/en/in-focus/whanau-ora/providers/> for a list of current Whānau Ora providers.

<sup>27</sup> Early Start was recently assessed with other home-based intervention programmes for efficacy in preventing child abuse and neglect. This assessment includes a description of the development of the programme.



clients when compared with those in the control group who did not receive such intervention (D. Fergusson, et al., 2005).

### **Family Start**

The Family Start programme was implemented on a national basis due to three primary concerns that arose out of government-commissioned research on disadvantaged families. Firstly, disadvantage in a socio-economic sense will often be self-perpetuating and children born in families experiencing such disadvantage were at higher risk of experiencing such disadvantage themselves. Secondly, and relatedly, children from families where the main long-term source of income was welfare benefits were three times more likely than other children to end up in receipt of such benefits themselves in adult life. The third factor arising from this research was the fragmentation and gaps in the services such vulnerable families received. Comprehensive research reviews had shown that results from international and New Zealand home-based family intervention programmes had led to “mixed findings with regard to individual programme effectiveness” (Centre for Child and Family Policy Research, 2005, p.11). These factors led to the implementation of Family Start in 1998, now maintained as an initiative that is part of the Strengthening Families Strategy.

Like Whānau Ora, Family Support is also strengths based (concentrating on identifying family strengths and working with families to make the most of those strengths).<sup>28</sup> Some identified success criteria for evaluation of the Family Support programme included (among others) the following socio-economic indicators for long-term success within the families of vulnerable children:

- More independent lifestyle, including less benefit dependency;
- Stable living situation including standard and security of housing, materials met;
- Adults in employment or training.

While the Family Start programme is designed to provide focus on the needs of children, unsurprisingly, the two top goals recorded by participating caregivers in the evaluation (2005, p.49) included:

- *Achieving better educational/training; and*
- *Achieving better employment/income.*

One of the strongest successes of the Family Start programme during the period of evaluation (2002–2003) was that the percentage of caregivers in employment rose from 13% to 40% (Centre for Child and Family Policy Research, 2005 , p.103). This change was seen to account for increased vehicle ownership and less reliance on others to meet transport needs. The report stated this result was encouraging, but did not affect benefit reliance in any way (Centre for Child and Family Policy Research, 2005, p.103):

*It is interesting to note that, despite the significant increase in employment rates, the percentage of caregivers identifying a government benefit as their main source remained essentially unchanged across the two years (around 60%). This is probably linked to the type of work being undertaken, which was largely unskilled, low paid and part time. However, there are other known benefits associated with being in the workforce aside from financial reimbursement, such as extended*

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28 See also the Family Start interventions provided by Māori providers such as Kōkiri Marae at <http://www.kokiri.org.nz/index-2.html>.

*social networks and increased self-esteem. All these workforce benefits have the potential to have positive impacts on caregivers and their children.*

This unchanged benefit reliance is consistent with the results also found in the evaluation of the Christchurch-based Early Start programme mentioned above. The evaluations of the Early Start and Family Start initiatives suggest that, while participating families may be assisted to make better budgeting choices and gain low-paid and low-skilled work, it is less likely that such families will be able to shift off the benefits by virtue of these interventions. Therefore, low income and relative poverty will remain a serious issue for such families. Indeed, the fact of poverty itself for these families was considered by the Family Start workers themselves to comprise significant obstacles to the success of the interventions (Centre for Child and Family Policy Research, 2005, p.83). Put more simply, poverty is a barrier to the potential effectiveness of measures that would assist in the alleviation of poverty (Centre for Child and Family Policy Research, 2005, p.83):

*Poverty and a serious lack of material resources (including means of transport) were problems that often hindered progress. Lack of suitable, affordable housing in some areas (especially Nelson) was a significant problem, contributing to overcrowding and associated health issues for families.*

However, ensuring that families received good budgeting advice *could* make a significant difference in member families being able to cope better with low incomes. In the evaluation report a comment from Work and Income regarding Family Start's effectiveness identified this as an important improvement (Centre for Child and Family Policy Research, 2005, p.95):

*Families have got their budgets under control, they are less in debt, they are paying their rent and power and have the ability to buy food. Their personal appearance is improved and their children are attending school. Some mums are looking at training to upskill. One sole parent we would not give up on ... she had the hardest life ... When Family Start came along a particular person took her on, she's turned around, her appearance, children are going to school, and budgeting. Family Start slowly weaned her off and got her independence back, it was a slow process. They provided intensive support, went and got the kids ready for school, paid the power, were there when the kids got home from school. It allowed her to see another way.*

These observations and the fact that benefit reliance remained constant despite the Family Start intervention suggests that poverty is likely to remain prevalent despite such intensive family-based intervention. On the other hand empowering families to make better decisions with the incomes they have may well be a feasible and achievable goal for such interventions.





Whānau Ora may well be able to effect such improvements, but previous experience suggests that Whānau Ora-based intervention may not achieve a significant change in benefit reliance. As discussed earlier, the unchanging, individualistic nature and structure of the social security system may contribute to its ongoing presence in the lives of whānau regardless of the level of intervention. While Whānau Ora may well succeed in assisting whānau to utilise their strengths and improve their conditions, there will be no flexibility or cognisance taken of whānau-specific needs in the delivery of income support or income replacement.

This chapter has no suggestions as to what sort of reform would be necessary to ensure that the structure of social security can meet the needs of whānau as well as of individuals. There is no doubt that social security is what stands between many whānau and utter destitution. What is needed is a revisioning of our social security system, a fundamental review that the Welfare Working Group abjectly failed to deliver. Until such change can be brought about it is unlikely that interventions such as Whānau Ora can make much difference to the relative poverty levels experienced by whānau. Whānau Ora may well make such poverty in the lives of Māori children more bearable and survivable, a good outcome in itself, but perhaps all New Zealand children deserve better.

Recommendations:

- A true, fundamental review of the social security system that does not threaten the amount of income support that is given to families in need, but seeks to identify ways to make the existing system less individualistic and more responsive to whānau needs;
- This review needs to be carried out in true conjunction with Māori;
- That Whānau Ora providers give assistance and training in social security provisions to whānau to ensure whānau are fully apprised of their entitlements.

# Chapter 5. New Zealand Pacific Children and Their Families

Teuila Percival<sup>29</sup>

## Introduction

Within two decades, almost one in five of children in New Zealand will be Pacific (Ministry of Social Development, 2010b; Statistics New Zealand, 2010b). With their predicted growth in numbers, Pacific will be major contributors to New Zealand's economic and social success or its failure. Pacific children's health and educational success are critical foundations not just for the Pacific Communities but for the whole country.

## Pacific children in New Zealand

"Pacific", is an inclusive term of convenience used to describe an increasingly diverse population group in New Zealand. Hailing from the many Islands of the South Pacific, the most numerous are Samoan, Cook Island, and Tongan with smaller numbers from other islands (Statistics New Zealand and Ministry of Pacific Island Affairs, 2010a). Pacific people in New Zealand are an increasingly heterogeneous group with over half now being New Zealand born (Statistics New Zealand and Ministry of Pacific Island Affairs, 2010a) and two thirds of Pacific young people today identifying with more than one ethnic group (Helu, Robinson, Grant, Herd, & Denny, 2009).

New Zealand has made considerable progress over the past decades. Pacific children however, have a very different experience with continuing disparate health and social outcomes compared with other New Zealand children. Pacific people are particularly vulnerable economically due to lower educational levels, a labour force predominantly in 'blue collar' low-paid jobs, low-median household incomes, and high unemployment. The effect of welfare reforms and market rents in the 1980's and 90's was to push more Pacific families and children into poverty (Ministry of Social Development, 2007). The recent global economic recession has also impacted on Pacific children both with measures of poverty and hardship and health (The Children's Social Health Monitor, 2009).

There are some positive gains such as retention of language in some Pacific ethnic groups (Helu, et al., 2009), increasing numbers of Pacific children enrolling in pre-school education (Statistics New Zealand and Ministry of Pacific Island Affairs, 2010a) and a dramatic reduction in Pacific meningococcal disease following the 2004 MenzB mass vaccination campaign (O'Hallahan, McNicholas, Galloway, O'Leary, & Roseveare, 2009). But these gains, important as they are, continue to be overwhelmingly subsumed by poor Pacific health, less educational success and increasing economic hardship.

Infant mortality (death rate before the first birthday) is often used as a marker of national child well-being. Pākehā and Māori infant mortality in particular has declined over the past decades (Ministry of Health, 2004). Pacific mortality has essentially remained unchanged. Current Pacific infant mortality is above 6 per 1000 live births compared with less than four for non-Pacific–non-Māori (The New Zealand Childrens Social Health Monitor, 2011).

Pacific children do not live in isolation. Their lives are inextricably linked to the well-being of parents and wider community.

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## Pacific families in New Zealand

Low household incomes and the marked inequality between Pacific incomes and other New Zealanders shape health, educational and social outcomes for our families. Pacific median household income is lower than non-Pacific people (Ministry of Social Development, 2007, 2010b). However the additional financial commitments of Church, and remittances to extended family back home in the Islands, result in Pacific families having even less money available for themselves (Tumama Cowley, Paterson, & Williams, 2004). Essentials such as healthcare for children may take second place to the other priorities of rent and cultural commitments. Pefi Kingi (2008) writes of Pacific families:

*...the family is the cornerstone of personal life from birth to death, and identity can centre on one's roles, duties and responsibilities within the family... it maybe that collective well-being is awarded a higher priority than that of the individual, particularly if that individual is a sick child.* (Craig, Taufa, Jackson, & Han, 2008, p. 12)

Unemployment affects not only income and social status but also physical and mental health and community participation. Pacific unemployment continues to be higher than for other New Zealanders, and as Figure 5.1. shows, the trend is worsening with the recent global financial downturn such that the Pacific unemployment rate was almost 14% in 2010 (Helu, et al., 2009), and reached 15.5% by June 2011 (Department of Labour, 2011a).

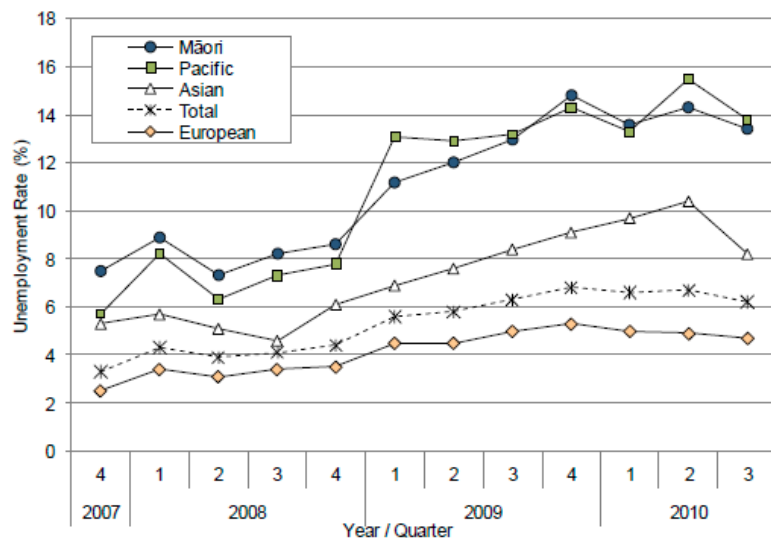
Poverty, particularly when it is an entrenched part of childhood, is associated with poor health, education, and economic outcomes. Such outcomes cast a long shadow extending into adult life (Aber & Bennett, 1997).

A Ministry of Health report (2008) shows that 40% of Pacific children are growing up in poverty. Benefit cuts, increased housing costs and high unemployment rates have contributed to this continuing poverty since 1990 (see Figure 5.2).

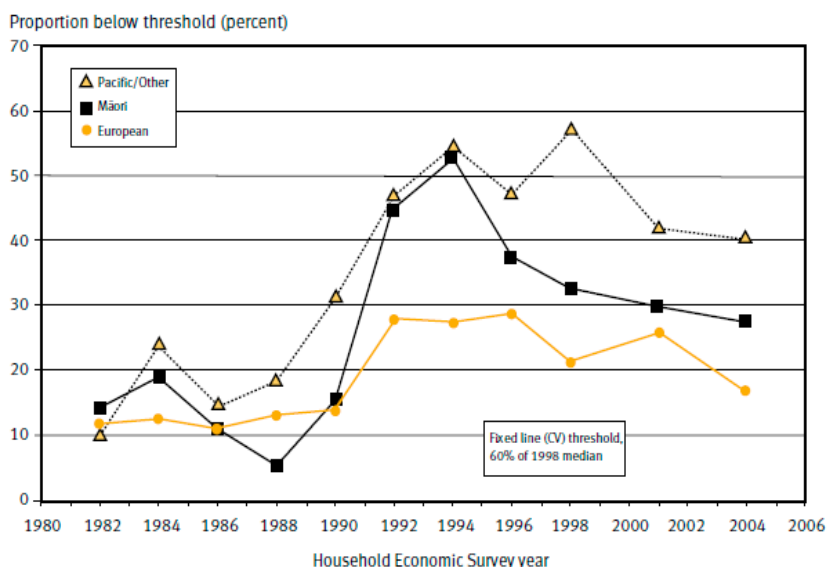
The Ministry of Social Development's Living Standards report documents Pacific families with dependent children as being more likely to be living in hardship than other ethnic groups (Ministry of Health, 2008). The proportion of Pacific children living in severe hardship at 30% almost doubled between 2000 and 2004 (see Figure 5.3). With another 31% living in 'significant' or 'some' hardship, New Zealand had over 60% of Pacific families living in hardship by 2006 (Ministry of Health, 2008).

Hardship measures include children having to share a bed, not being able to afford to go to the doctor, being unable to afford shoes and wet-weather clothing, and not going on school outings because of cost.

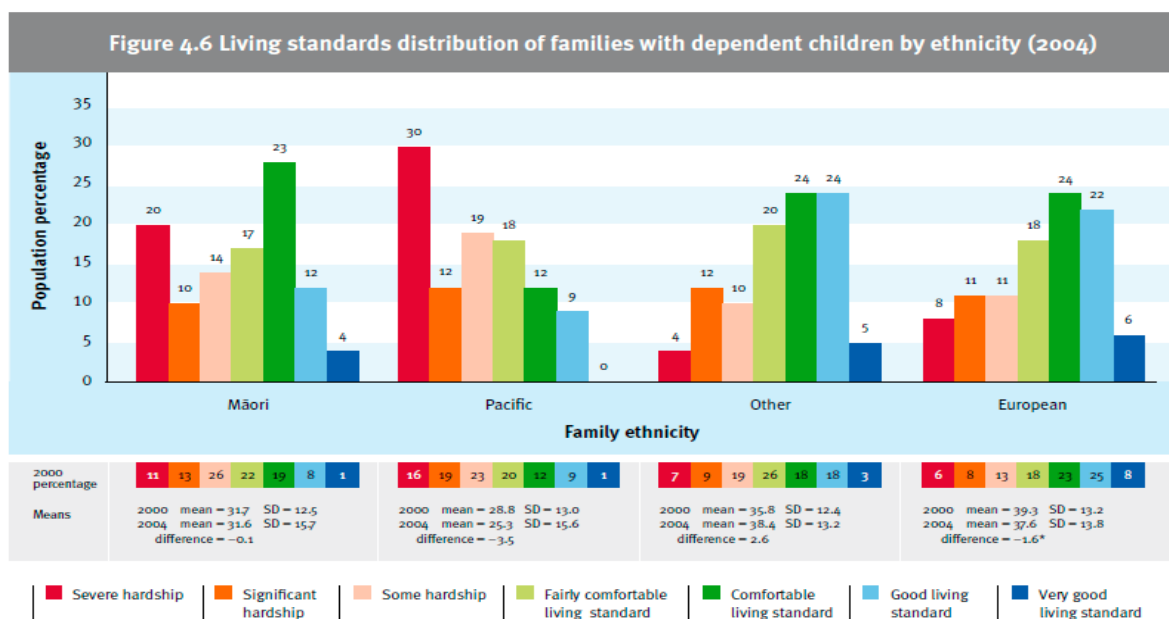
**Figure 5.1. Quarterly Unemployment Rates by Total Response Ethnicity Quarter 4 (December) 2007 to Quarter 3 (September) 2010** (Source: The Children's Social Health Monitor, 2011)



**Figure 5.2. Proportion of Children in Low Income Households by ethnicity 1982-2004** (Source: Ministry of Health, 2008).



**Figure 5.3. Living Standards of Families with Dependent Children in New Zealand by ethnicity (2004)** (Source: Ministry of Social Development, 2006b)



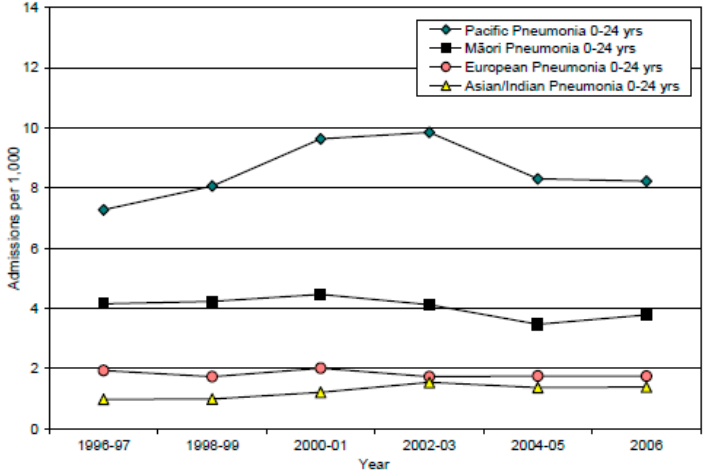
## Health and well-being

Children grow up in families. The health of families, in particular that of the adults who are Pacific children’s caregivers, impacts on them directly and indirectly via household income and ability to access resources and healthcare. Pacific adults in New Zealand as a population group have poorer health than most New Zealanders with the double burden of high rates of non-communicable diseases and infectious diseases, together with continuing high rates of avoidable premature mortality (Ministry of Health, 2005a; Novak, 2007). The picture is of an adult Pacific population with poor health determinants, of low household income and high unemployment, high prevalence of intermediate risk factors such as obesity and hypertension, and high prevalence of diseases such as diabetes and ischaemic heart disease (Ministry of Health, 2005a; Novak, 2007).

Most notably, Pacific have not shown the same reduction in all age mortality seen with Māori and Pākehā (Blakely, Tobias, Atkinson, Yeh, & Huang, 2007). Effectively this has seen an increase in the disparity between Pacific life expectancy and that of other New Zealanders. This burden of disease and avoidable mortality in the adults who are the caregivers for our Pacific children impacts on children’s well-being and ability to access resources including healthcare.

Pacific children also experience poorer health than other New Zealand children. The Ministry of Health (2005a) identified a number of Pacific child health concerns, including the highest child rates of obesity, highest child hospitalization rates for acute and chronic respiratory and infectious disease and serious skin infection. Recently the New Zealand Child and Youth Epidemiology Service has published four reports on the health of Pacific Children and Young People in New Zealand (Craig, Anderson, Taufa, & Jackson, 2009; Craig & et al., 2011; Craig, McDonald, Wicken, Reddington, & Taufa, 2010; Craig, et al., 2008). These reports also document the continuing poor health of Pacific children in New Zealand. For example, pneumonia is one of the leading causes for hospitalising children (see Figure 5.4).

**Figure 5.4. Hospital Admissions due to Pneumonia in Children and Young People 0-24 Years by Ethnicity, 1996-2006** (Source: Craig, 2008)



Source: Numerator-National Minimum Dataset; Denominator-Census; Ethnicity is Level 1 Prioritised

Pacific children’s rates of hospitalisation are the highest in New Zealand, being twice that of Māori and four times that of Pākehā (Craig, et al., 2008). As shown in Table 5.1, acute rheumatic fever in Pacific is twice that of Māori and 50 times that of Pākehā (Craig, et al., 2009). This potentially preventable condition with serious long-term cardiac sequelae is associated with poverty (Craig, et al., 2009) and overcrowding (Jaine, Baker, & Venugopal, 2011).

The pattern of high Pacific child hospitalisation rates shown in Table 5.1 is also apparent for other acute infectious diseases, such as cellulitis, meningitis, gastroenteritis and asthma.<sup>30</sup> Pacific children also seem to present to hospital with more advanced or severe disease raising concerns with barriers to accessing both primary and secondary care (Grant, 2001). A similar pattern is seen in Pacific adults with more advanced disease presenting late to primary and secondary healthcare (Novak, 2007). The lack of health service co-ordination and the continuing financial costs involved are barriers for our low-income Pacific households.

30 See Chapter 12, Children’s health in Aotearoa.

**Table 5.1. Risk Factors for Hospital Admission due to Acute Rheumatic fever in Children and Young People 0-24 Years, New Zealand 2003-2007** (Source: Craig, 2009)

Variable	Rate	RR	95% CI	Variable	Rate	RR	95% CI
NZ Deprivation Index Quintile				Prioritised Ethnicity			
1-2	1.26	1.00		European	1.15	1.00	
3-4	2.88	2.28	1.28 - 4.03	Māori	31.81	27.68	20.45 - 37.47
5-6	5.57	4.41	2.60 - 7.47	Pacific	61.76	53.74	39.52 - 73.07
7-8	9.50	7.52	4.54 - 12.46	Asian	0.88	0.77	0.33 - 1.79
9-10	37.04	29.32	18.11 - 47.46	Urban / Rural			
Gender				Urban	13.34	1.00	
Female	10.08	1.00		Rural	8.43	0.63	0.50 - 0.79
Male	15.22	1.51	1.32 - 1.73				

Maternal health is particularly important to child health. Notably high rates of obesity in Pacific women and poor antenatal care attendance (Ministry of Health, 2005a) affect Pacific infant morbidity and mortality and late foetal deaths (Craig, et al., 2010; Stacey et al., 2011). As with much of the morbidity seen with Pacific children, many of these deaths are preventable with access to effective healthcare and improved socio-economic circumstances.

The most important determinant of Pacific children's health status and continuing health inequality is poverty. A policy environment that addresses child poverty is a critical part of reducing health inequality for our children.

Appropriate healthcare can be an effective means to address inequalities. The New Zealand Healthcare sector has developed some programmes which have been effective for Pacific children such as the Healthy Housing programme (G. Jackson et al., 2011a) and the MenzB national immunization campaign (O'Hallahan, et al., 2009). Both of these programmes were cognisant of Pacific disparities and built into their design strategies to achieve specific Pacific targets. Mainstream Primary HealthCare and the Primary HealthCare strategy have failed to address child health inequalities and to effectively reach those most in need such as Pacific.

Education enrolment, retention and qualifications are important for the health and economic success of a population. Our Pacific children, along with Māori, are more likely to leave school without qualifications than other New Zealanders (Statistics New Zealand and Ministry of Pacific Island Affairs, 2010b). The education sector is showing some improvements both with Pacific pre-school enrolments and NCEA 1 achievement in schools. In 2008, 76.3% of Pacific achieved NCEA 1 compared with 59.7% in 2005 (Statistics New Zealand and Ministry of Pacific Island Affairs, 2010b). Given the critical role that education plays as a determinant of health and socio-economic success, this provides a small degree of optimism for Pacific people.

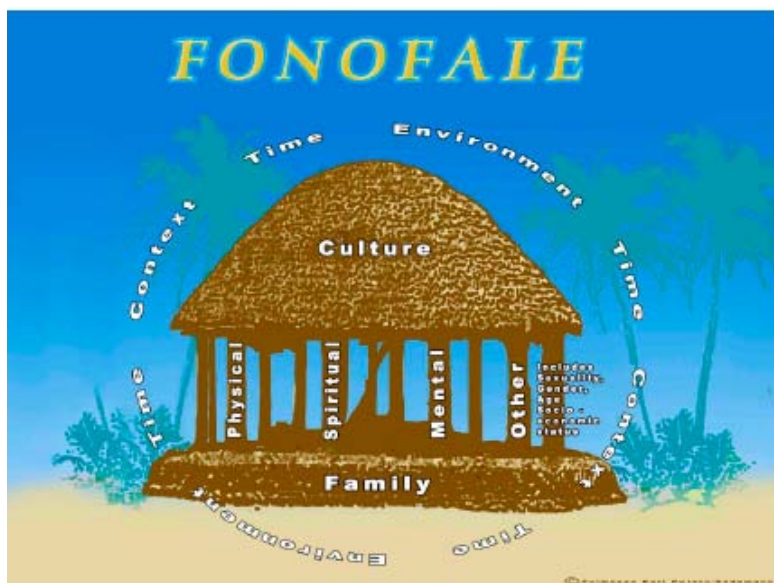
#### The Fonofale Model

There are other dimensions for Pacific when considering well-being. Puloto-Endemann's Fonofale model depicts the determinants and areas of Pacific health and well-being (Pulotu-Endemann, 2009). With its Pacific holistic view it has been used previously to describe negative social and health effects on Samoan children (Lindsay & Percival, 2011). With the aiga or family as the foundation, and culture providing shelter for physical, spiritual, mental health and socio-economic status (see Figure 5.5), it can also be used to describe and explain the negative effects of surrounding stressors such as economic recessions or welfare reform. It can also give some insight into the resiliency seen in Pacific children.



The model reminds us of all that is important for Pacific children's well-being: family, culture, social connections, economic security, environment, mental and physical health and could be a framework for designing integrated strategies and interventions for Pacific.

**Figure 5.5. Fonofale Model** (Source: Puloto-Endemann, 2009)



Pacific children are an important group for all communities in New Zealand, not just for their own ethnic communities. Their well-being is part of the well-being of the nation. To achieve traction in the reduction of the enduring disparities in their health and socio-economic circumstances requires a commitment from leaders in Pacific communities through to Government agencies and parliamentarians.

Health services certainly have a role but the most important strategies will need to affect all determinants of child poverty, overcrowding and education.

*There is no great virtue in encouraging healthy lifestyles in poor areas without also attempting to redress the structural inequalities that limit human lives and aspirations.....*

*In short, health promotion will be of limited value if it is not accompanied by fundamental changes that guarantee human dignity and full inclusion in society and the economy. (Professor Sir Mason Drurie, Mauri Ora, 2001)*

## Recommendations

Seek a commitment from leaders in Pacific communities, Government agencies, and parliamentarians to:

- Address inequalities with appropriate healthcare;
- Design integrated strategies and interventions for Pacific peoples.



# PART TWO

## Chapter 6. Working for Families

Susan St John<sup>31</sup>

### Introduction

In the run up to the 2011 budget, Working for Families (WFF) was portrayed in the media by various commentators as overly generous, something nice to have, and an ill thought out, costly election bribe that Labour had used to win the 2005 election. For example:

*Dropping Working for Families, interest-free student loans and “free” early childcare would be the fastest way to reduce the budget deficit.* (Hickey, 2011)

Yet the scheme is not nearly as generous, well-designed or inclusive as the Australian scheme (see Appendix 3). Moreover the changes announced in the 2011 budget, while subtle and masked with soothing words about ‘gradual change’, are profoundly bad for families.



WFF was not new in 2005 when it came in, but built on the existing framework of family assistance, and made a significant difference for families that met the work test.<sup>32</sup> Without the improvement in weekly child payments by 2007 when WFF was fully implemented, child poverty would have been very much higher. Nevertheless WFF has by no means been an unqualified success, nor have the 2011 Budget changes been the kinds of reforms that were needed.

*Left Behind* (2008) outlined the horrendously complex system of child-related tax credits that now comprise WFF. Unbelievably, in 2011 the system has become even more cumbersome, with few families understanding all the various parts of the package and the different rules that apply. Worse still, the complexity has served to produce a new raft of anomalies and inequities. One problem is WFF was not designed for recessions or catastrophes. Another is that it is based on a model of the labour market that was more appropriate to the middle of last century than today. Still another is that WFF is inconsistent with other family policies such as Child Support.

But the needed changes are still possible. The Labour party in Opposition now is rethinking WFF:

*Annette King now admits Working for Families did not fully solve the child poverty problem, and that the children of beneficiaries also need to be lifted out of poverty. “There is an issue we’ve got to address now,” says King. “One hundred and thirty thousand kids were lifted out of poverty with Working for Families, but our work’s not finished. We’ve got another group of kids who haven’t benefited from that at all. And that’s people who are on benefits. We’ve got to rethink our policy in terms of how do we have an element of universality for our children in the way we give it to our old people. It’s unfinished business.”* (Laugesen, 2009)

31 Dr Susan St John, QSO, Associate Professor of Economics, University of Auckland, co-director of the Retirement Policy and Research Centre and a member of the Management Committee of Child Poverty Action Group.

32 CPAG would like to thank Valmai Copeland, Inland Revenue Department, for her constructive comments on Chapter 6. This does not in any way imply IRD endorses the views expressed in this chapter.

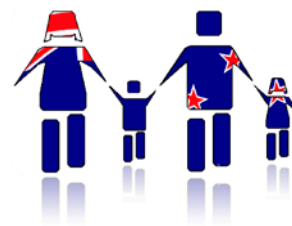
The biggest problem is that the design of Working for Families does not put the needs of the child at the centre. It manages to exclude the poorest children, and its critical purpose has become lost in a morass of arguments over entitlements, overpayments, abatements and work tests.

According to the OECD's 2011 report on family well-being:

*Family benefits need to be well designed to maintain work incentives, but they need to be effective in protecting the most vulnerable, otherwise we risk creating high, long-term social costs for future generations. (OECD, 2011b)*

### Summary of background

Family assistance in the form of per child, per week payments that go to the caregiver are widely used in developed countries to alleviate family poverty and to provide some acknowledgment that children reduce the parents' ability to pay tax at all income levels.<sup>33</sup> Payments for children can be in the form of universal child benefits, tax exemptions, tax rebates or tax credits. *Left Behind* (2008) outlined how, by 1986, New Zealand had evolved a simple system in which all children, whether in families on benefits or in work, with high or low incomes, were entitled to a flat rate per child Family Benefit, and low-income families were entitled to an additional child-related tax rebate called Family Support. We had a nice balance between universal and targeted payments and most people understood the system. Moreover the payment was directly linked to the child and not to the source of parental income.



But then, in the radical 1991 Budget, the Family Benefit was added to Family Support, and all child-related financial assistance became income-tested against joint parental income. While this was an extreme policy, Family Support was at least paid to the caregiver, regardless of whether or not the family was reliant on a benefit. Unlike welfare payments, however, there was no automatic adjustment for inflation and income thresholds were rarely increased. Over the 1990s the real value of Family Support was eroded at the same time as child poverty emerged as a major social issue in New Zealand (St John & Craig, 2004).



Policy took a turn for the worse in the 1996 Budget. Families were given a much needed catch-up for inflation, but many low-income children were excluded from the bulk of the increase: while Family Support was increased by \$20, \$15 was separated off and denied to children whose parents were on a benefit. This \$15 per week per child payment was initially called the Independent Family Tax Credit (IFTTC), reflecting its role as a reward for not being 'dependent' on the state. In 1996 the IFTTC was renamed the Child Tax Credit (CTC), and under WFF was reinvented to become the In-Work Tax Credit (IWTC).

By the late 1990s, child poverty in New Zealand had become an embarrassment and in 2002 the Labour government vowed to 'eradicate it' (Ministry of Social Development, 2002). Yet it was not until the 2004 budget that 'Working for Families' was announced, with a two-year phase-in for increased family assistance beginning in 2005. WFF included a range of improvements such as increased Accommodation Supplement and childcare subsidies. The major thrust, however, was a

<sup>33</sup> For example a two-adult and two-children household is not in the same 'horizontal' position as a two-adult household on the same gross income. The household with children does not enjoy the same standard of living and hence does not have the same ability to pay tax.

very significant increase in financial assistance for children in 'working' families.

CPAG provided a detailed analysis of this package in late 2004, welcoming the catch-up spending, but expressing alarm that many families in the poorest circumstances gained very little (St John & Craig, 2004). The package, managed by the Inland Revenue department (IRD) appeared to increase Family Support (later renamed the Family Tax Credit (FTC) significantly for all, but the Government had taken the opportunity to use this extra assistance to offset a range of cuts to benefits, so that many families were left simply 'no worse off'.

The new In-Work Tax Credit (IWTC) that replaced the CTC from 1 April 2006 was much more generous, at \$60 a week for families with up to three children and an additional \$15 a week for the fourth and subsequent children. However, like the CTC before it, families on benefits were denied the IWTC; and those not on benefits had to meet new work tests to qualify. The requirement of 20 hours of work for a sole parent and 30 hours for a couple appeared to be a hangover from past policy and had not been thought through for the realities of the modern, more casualised labour market. The requirement of 20 hours for a sole parent is quite excessive when compared to only 30 hours for a couple where there is an extra adult to provide care.

Criticism of the WFF package in 2004 was not well-received politically. The argument that the poorest of poor children had been left out fell on deaf ears, and the Government claimed to have no money left to help beneficiaries further. Then in 2005, in a surprise show of pre-election generosity, an additional \$500 million was found to raise the threshold for the joint parental income test from \$27,500 to \$35,000, and to reduce the rate of abatement from 30% to 20%. The effect of this was to push the IWTC well up the income scale as it is abated after the FTC.

The justification was that the previously higher effective marginal tax rates on low and middle incomes countered the work incentive thrust of the Government's intentions. Nevertheless, if work incentives were the objective, it was also unfortunate that the opportunity was not taken to revisit the design of the IWTC, or its on-going relevance. In other words, if increasing the threshold and reducing the rate of abatement were now going to provide a work incentive, why was a separate IWTC necessary?

By the year ending June 2011, the total cost of WFF tax credits was \$2.8 billion, made up of the FTC (\$2.2 billion) and the IWTC (\$592 million), with 2011 rates set out in Table 6.1. Adjustments for inflation for all parts, except the IWTC, occur when cumulative inflation exceeds 5%. However the 2010 Budget froze the threshold at \$36,827 and the 2011 Budget made further changes discussed below.

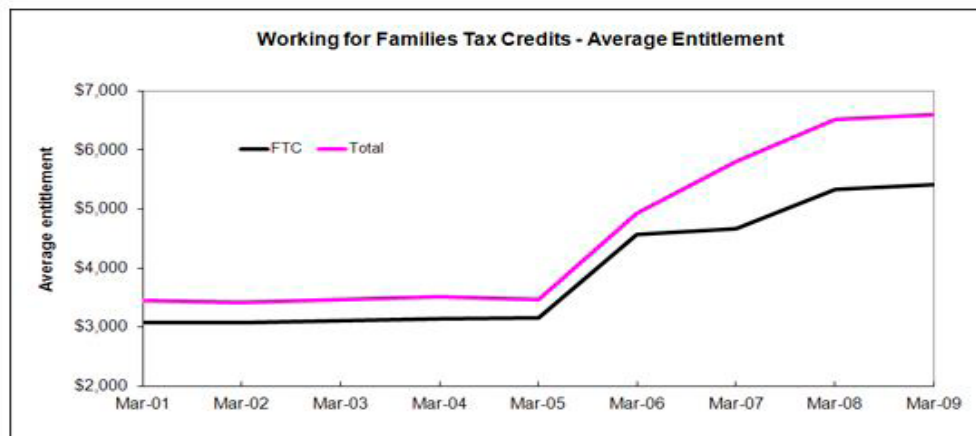
<b>Table 6.1: WFF weekly child payments from 1 April 2011 – children under 15*</b>	
	<b>Weekly Support*</b>
Family Tax Credit, first child	\$88
Family Tax Credit, each additional child	\$61
In Work Tax Credit, one to three children Plus \$15 for each additional child	\$60
Threshold, joint income	\$36,827
Rate of abatement	20%

\*Higher rates apply for older children. In 2011, the rates for a first child if 16 or over is \$101, a subsequent child if 13-15 is \$69 and a subsequent child if 16 or over is \$91. See [www.ird.govt.nz](http://www.ird.govt.nz)

In 2011, WFF abates from \$36,827 at a rate of 20 cents for each extra dollar of family income. So, for example, a family with five children can still access some part of the IWTC up to an income of \$145,042.<sup>34</sup> It is possible for a caregiver in a five-child, high income family to be receiving some IWTC up to \$90 a week without any paid work requirement from the caregiver. The extent of the wide difference in the treatment of those who are entitled to only the FTC is shown in Figure 6.1

**Figure 6.1: WFF Tax credits- Average entitlement with and without the IWTC\***

Source: <http://www.ird.govt.nz/aboutir/external-stats/social-policy/wfftc/social-policy-wfftc.html>



\*Note: Other minor work related tax credits are included in total.

2008 marked the end of New Zealand's seven-year period of sustained economic 'golden weather', the beginning of the world financial crisis and a protracted recession. In the past, when parents on a low income needed to go onto a benefit, their Family Support could usually be expected to increase as a result of their lower income. Now, because the IWTC is tied to paid work, family assistance for low income families fails to provide this cushion. The caregiver loses \$60 a week, or more for bigger families, just at the time when their children require more assistance, not less, to help escape the economic and social exclusion that undermines their future.

The IWTC appears to be difficult to administer fairly, and the take-up and compliance for low-income families are complex. As jobs are lost in the on-going recession, children whose parents access a main benefit can experience a sharp drop in living standards. However, the IRD may continue to pay the IWTC, but only in some circumstances. For example, in the aftermath of the Christchurch earthquake the website says:

*To get either the IWTC or MFTC payment, couples must normally work at least 30 hours a week between them, and single parents must work at least 20 hours a week. If, because of an earthquake, you don't work these hours, you may still receive the in-work tax credit. If you're not sure if your circumstances qualify you as "normally" working the required hours, please contact us.<sup>35</sup>*

If a family loses work for reasons other than an earthquake, they may feel that they too deserve to be regarded as 'normally working the required hours'. In fact, enquiries into the circumstances in which the IWTC is paid after an earthquake reveals limited applicability requiring an on-going employment relationship with the firm and on-going payments from the firm. There must be no benefit being paid

<sup>34</sup> See IRD <http://www.ird.govt.nz/wff-tax-credits/entitlement/>.

<sup>35</sup> See <http://www.ird.govt.nz/resources/a/a/aa069100442f22a4add9bf4e9c145ab7/ad70.pdf>.

from Work & Income. So, a few families affected by the earthquake will be protected while others, whose children have the same needs, will lose out. The remodelled welfare state increasingly serves to provide a minimal subsistence safety net which operates in an arbitrary way rather than a social security safeguard.

#### Other WFF tax credits

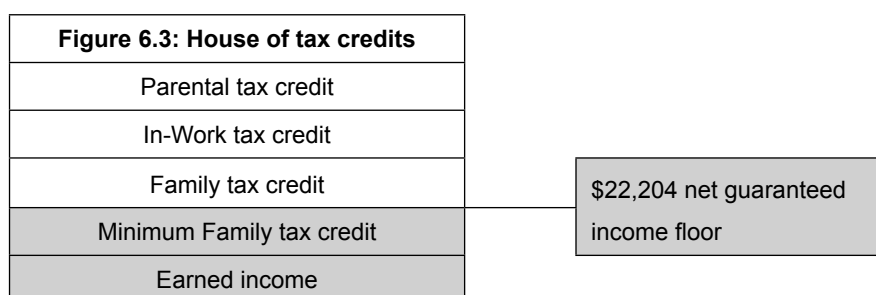
So far the focus has been on two major tax credits: the FTC and the IWTC. In addition, families may also be entitled to the Parental Tax Credit (PTC) and the Minimum Family Tax Credit (MFTC). The relationships are set out in Table 6.2. Both the PTC and the MFTC are highly work-focused and problematic as a result.

<b>Table 6.2. Working for Families Tax Credits</b> (Source: IRD website)		
<b>Tax Credit</b>	<b>Abbreviation</b>	<b>Nature of payment</b>
Family Tax Credit	FTC	Child-related weekly supplement
In-Work Tax Credit	IWTC	Child-related weekly supplement with work requirement
Minimum Family Tax Credit	MFTC	Minimum Family income top- up with 100 per cent abatement- with work requirement
Parental Tax Credit	PTC	NZ\$150 a week for 8 weeks for new child No receipt of benefit No paid parental leave

**The PTC** is discussed more fully in Chapter 7. Depending on the work-related income, up to \$150 a week is payable for up to eight weeks when a new baby is born. This is added to the FTC and abated against annual income. Like the IWTC, it is not adjusted for inflation. The order of abatement is FTC first, then the IWTC, and finally the PTC. Just as the IWTC leaves out the poorest children, those babies whose parents do not satisfy the off-benefit rule are not eligible for the PTC.

**The MFTC** is not child-related but is paid only to families with children. It is designed to provide a guaranteed minimum family income for those working the required number of hours per week (20 for a sole parent and 30 for a couple). The level in 2011 is \$22,204 net, regardless of the composition of the family, with FTC and the IWTC paid on top. The MFTC is reduced by one dollar for each additional dollar of disposable income earned. Thus it resembles a welfare benefit but with an even more severe abatement rate. Few families are receiving this payment.

The house of tax credits is illustrated in Figure 6.3. The tax credits above the minimum family income line are the means by which additional children are recognised.



It is difficult for families receiving family assistance to understand the impact of earning more income because rather than an itemised report, they are given a total WFF tax credit amount on their tax

reconciliations, even though different credits are treated differently for abatement purposes. The severe abatement of the MFTC is of concern, as families may find at the end of year that they have to repay, dollar for dollar, any unanticipated income they have earned.

Table 6.3 shows the effect of moving from the Domestic Purposes Benefit (DPB) and working 19 hours per week at the minimum wage, to working 20 hours and getting the MFTC and the IWTC. The gain in disposable income from moving off the DPB is around \$64 a week. However, there is no incentive for the sole parent to work any more than 20 hours a week until they can work around 35 hours a week, because the MFTC abates at 100 cents for each additional dollar of net income, resulting in no increase in income for the additional hours worked.

	<b>DPB</b>		<b>MFTC</b>
19 hours	\$ 247.00	20 hours	\$260.00
tax	\$43.23		\$27.30
ACC*	\$4.99		\$5.20
net earnings per week	\$198.79		\$227.50
DPB net max	\$288.47	MFTC max	\$427.00
net DPB after loss benefit (\$100-247)	\$225.10	Net MFTC	\$199.50
IWTC			\$60.00
FTC- 1 child	\$88.00		\$88.00
disposable income	\$511.89		\$575.00
Total government cost	\$313.10		\$347.50
less tax paid on earnings	\$43.23		\$27.30
Net government cost	\$269.88		\$320.20
*Different assumptions about ACC give slightly different results			

It is very important to understand that while the move from being employed for just below 20 hours a week and in receipt of a benefit, to being employed for 20 hours and not receiving a benefit, is technically a move off welfare to 'independence', in reality is no such thing. A large amount of assistance is provided by the state in each case, and in the Table 6.3 example, the government actually pays more when the sole parent is on the MFTC rather than the DPB. The main difference is that the name for the assistance from the government has changed.

In both cases, the cost of the DPB and the MFTC respectively are offset by any Child Support paid by the liable parent. The total cost of the DPB in particular is given gross of these recovered payments and so overstates the expenditure by the state.

The Welfare Working Group Report

The Government-appointed Welfare Working Group's (WWG) final report, *Reducing Long Term Benefit Dependency*, 2011, might have been expected to take a close look at the way the tax credits work and their role in relieving poverty by encouraging work. However, the WWG's terms of reference explicitly excluded WFF and any consideration of the adequacy of the benefit system, despite the



Government-appointed Tax Working Group's report including a plea for a thorough investigation of the tax/welfare interface.

The WWG's final report uses the term 'paid work' 242 times while 'unpaid work' does not appear once. Caregiving of young children by their parents is invisible and unvalued. Parents are either paid workers or 'jobseekers', but not nurturers caring for the next generation of New Zealanders. For the WWG, the only way out of poverty is via paid work, and the only acknowledgement of the role of tax credits (as illustrated in Table 6.3) is a nod in the direction of expecting them to provide the necessary support.

The WWG proposes a range of reforms to sort out 'feckless' sole parents. To illustrate how these would operate they create a composite case study of 'Nikki' who has two children, aged three and six, works part-time at night, and has just separated from her partner (Welfare Working Group, 2010c, p. 59). Under the current rules, Nikki would receive the DPB and not be expected to work until the youngest child is aged 6. Under the WWG proposals she would become a 'jobseeker', and a benefit would be unnecessary because her 'co-ordinator' (a private sector case worker paid to move people off benefits) will arrange free childcare at the local kindergarten, an Accommodation Supplement, and help her claim WFF from the IRD, and claim Child Support from her ex-partner. As if by magic, Nikki "continues working and also looking after her children" (Welfare Working Group, 2010c, p. 59).

This facile case study obscures the bothersome reality that Nikki actually faces, including dealing with the separation, interacting with the IRD, maintaining her expected output at her place of work, and finding affordable day-care that fits the limited daytime hours she is now able to work. When Nikki's partner moves out, the family may continue to have the same financial arrangements for rent and other outgoings, and stay off a benefit as they attempt to work things out. Once notified of the separation, however, the IRD cuts off the IWTC, and bills Nikki for any overpayments because she is not working 20 hours per week.

If Nikki, now a 'jobseeker' finds the required 20 hours of paid work during day-care hours, her income is topped up, as described above, with the MFTC. With the IWTC of \$60 each week plus the FTC, she is better off than on a benefit because the government is giving her a huge wage subsidy through the tax system. However, she is intensely vulnerable to any loss of hours of work that may render her ineligible for both the IWTC and the MFTC.

Under the current rules, if Nikki remained on a benefit, earning \$100 a week would give her around \$80.50 extra net income.<sup>36</sup> Under the WWG proposals, extra earnings would be abated much more harshly in order to teach her that she should really be in full-time work. The WWG (p.108) recommends that the threshold be lowered from \$100 to \$20 a week and an abatement of 55% of net benefit apply for any extra income over \$20. From earning an extra \$100 per week, after tax and abatement, she would gain less than \$40. It must be remembered also that GST at the higher rate of 15% is extracted when she spends this money.

The WWG's reasoning appears to be: working full time at the minimum wage gives people much more money than they would get on benefits. Therefore beneficiaries need to work full-time and be sharply penalised for working only part-time to reinforce the point. For sole parents with child rearing responsibilities who can only manage a few hours of work a week, this policy suggestion is particularly perverse.

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<sup>36</sup> Tax at 17.5% and ACC at 2%.



Oops we had a recession

When the Labour-led Government developed WFF, it did not factor in the possibility of a deep recession in New Zealand, nor did it envisage events such as the global financial crisis or disasters like the Pike River mine explosion in 2010, and the Christchurch earthquakes in 2010 and 2011.

In 2009 the National-led Government recognised that families were losing their jobs through no fault of their own and announced the *ReStart Package*.<sup>37</sup> This package had several parts but for families the key part was called 'ReCover'. This allowed families that had been made redundant to retain the IWTC for 16 weeks.

ReCover was a stopgap quick-fix creating two classes of unemployed: the deserving and the undeserving. A written question in parliament (Green Party, 4 March 2011) revealed that by January 2011 when it was phased out, only 2,281 families had received a full ReCover payment. The Minister was unable to give numbers for those who did not go on a benefit but became ineligible for the IWTC because their hours of work were too low.

As 2011 unfolds, rather than the promised economic bounce-back, it is clear that the Government's tax shift (see Chapter 8) has been impotent to restart the economy. The economy has been severely crippled by the Christchurch earthquakes but no new Restart Package has been announced to support all affected families. As discussed above, while a few parents may have kept their entitlement to the IWTC because they fulfilled special limited earthquake criteria when they lost hours of work, other unfortunate families who needed to go on a benefit, or who lost an on-going relationship with the former employer also lost the IWTC.<sup>38</sup>

The OECD cautioned several years ago that the conditionality on work may magnify some income losses for those whose earning or working hours fall below entitlement to in work benefits. New Zealand has ignored this caution.

*Because severe economic downturns can have marked effects on the earnings distribution, policymakers should review whether the eligibility conditions and payment profiles of existing [in work benefits] are appropriate or should be adapted in order to exploit their potential as a measure that cushions income losses during a recession. (Immervoll & Pearson, 2009, p. 46)*

Even without the recession, the requirement of a fixed number of hours of work a week is inappropriate with 'just in time' and casual employment very common in a modern labour market.

## Evaluating Working for Families

The objectives of WFF conflate two goals: poverty reduction and work incentives. As noted earlier, the dramatic rise in child poverty in the 1990s led to the Labour-led Government's pledge in 2002 to make eliminating it a top priority. This concern was clearly a factor in designing the IWTC, and is explicitly stated as a goal of the WFF package. Along with improved childcare subsidies, the IWTC was specifically designed to:

*... make work pay by supporting families with dependent children so work effort is rewarded; ensure income adequacy, with a focus on low and middle income families with dependent children to address issues of poverty, especially child poverty. (Centre for Social Research and Evaluation & Inland Revenue Te Tari Taake, 2007)*

<sup>37</sup> See <http://www.cbnz.org.nz/files/restart-factsheet180209.pdf>.

<sup>38</sup> Those who were injured and on ACC may keep the IWTC. Anyone who was employed and has an accident after 1 January 2006 is treated differently to others who lose their jobs or had their accident before this time.

Thus the IWTC part of the WFF policy was supposed to get sole parents back to work *and* to reduce child poverty. The unacknowledged trade-off was that using one instrument to achieve two goals was going to compromise at least one of the objectives. To 'make work pay' using a tool that was designed to meet the costs of children and reduce their poverty inevitably meant that some children would be treated differently to others. In the absence of a commitment to reducing the poverty of all children, some would be 'left behind' (St John & Craig, 2004). Moreover as *Left Behind* (2008) noted, moving sole parents off benefits is not an adequate or accurate measure of whether life has improved for them or for their children.

### **Design issues**

The basic theory was that work provides the route out of poverty *but* that work incentives were required *and* they would be effective. Thus a work incentive should 'make work pay', by creating an income gap between those in paid work and those not in paid work. The designers of the IWTC paid no attention to international advice that care would need to be taken in creating such a gap so that the latter group were not made worse-off as that would simply increase poverty (Pearson & Immervoll, 2008, p. 2).

The IWTC is a most unusual 'in work benefit'. It does not reward an extra hour of work, as would for example a lower tax rate, but provides a lump-sum to families who met the work-based criteria. The 'income effect' of the IWTC unambiguously acts to reduce work effort, while the 'substitution effect' towards more work is only operable if the qualification point of 20 hours a week for a sole parent and 30 hours for a couple can be achieved. The incentive is to reach the required hours of work, if that is possible, but no more.

There appeared to be no theory or international basis for applying an in-work benefit only for those with children. Few countries use a child-related work incentive (Human Rights Tribunal, 2008, p. 10). Almost no attention was paid to Australian policy where there has never been a child-related payment to encourage work, and where all low income children are treated the same (see Appendix 3).

Moreover the IWTC is unusual in being paid to the caregiver not the worker. In the development of the policy, the officials recognised both that: 'payments of family assistance to the principal carer is in the best interests of the child'; and that: 'payment of the [IWTC] cannot easily be untangled from the other elements of family assistance'.<sup>39</sup> Thus confirming that, despite its name, the IWTC is just a part of weekly family assistance to be used in the interests of the child.

It is possible, and appears to have been the case in New Zealand, to be trapped by circular thinking as the following illustrates:

*[In Work Benefits] provide additional benefits to low-income families, so reduce the incidence of poverty among those families with children. They also increase the incentive to work, and as poverty rates among those in work are lower than those out of work, any increase in the number of parents moving into work would reduce child poverty.* (Pearson et al, 2008, p. 13)

Is work itself the way out of poverty? Or is it the way out of poverty because the state makes it pay with sufficient subsidies? Sometimes the justification is the belief that any attachment to the labour force creates future opportunities for well-paid work that will eventually provide an unsubsidised path out of poverty. Recent research in Canada has thrown into doubt the value of work incentives for achieving any such long-term benefit, but this evidence was not adduced in the IWTC development

<sup>39</sup> See cabinet paper Dec 2003, p. 24 (Ministry of Social Development, 2004a).

(St John & Dale, 2010b). Nor was attention paid to the obvious: if work incentives are used as a major and direct method of addressing poverty, there is a risk of creating and perpetuating an underclass who cannot access the incentive and who thus must remain, by definition, in poverty.

*Prior to implementation, studies showed the expected impacts of WFF on employment could be expected to be minimal. Sole parents would have a small increase and second earners in dual-income households a small decrease [in hours of work] (Ministry of Social Development, 2004a, p. 29).*

Then, before the policy was implemented, the Government announced the increased threshold and lower abatement as described above. A priori, this was expected to provide a strong incentive to increase work effort to the new threshold. For those above the new threshold the effect was more ambiguous. By the time the complete WFF package was fully implemented in 2007 there was no clear connection between the original rationale for the IWTC and its final form.

**Official evaluation**

When WFF was introduced, the MSD and the IRD were given a very large budget to monitor and evaluate Working for Families (Dalgety, 2010a, 2010b; Dalgety, Dorsett, Johnston, & Spier, 2010). St John and Dale (2010a) concluded that the economic evaluation became an endpoint of the process, and there was little broader critical analysis that might suggest improvements, or even a fundamental rethinking of policy. The wrong questions were asked, and the researchers were too easily satisfied with their statistical analysis without asking if their results were meaningful. In essence the evaluators were happy to show, using a standard statistical technique, a marginal increase in the numbers of sole parents working that they attributed to the IWTC.<sup>40</sup> However the figures (Table 6.4) clearly show that by December 2010 the numbers on the DPB were back to their pre-WFF levels.

If the sustained increase in employment due to the IWTC is in fact zero, then the cost of over \$500 million means that this in-work benefit has an infinite cost per extra job. If the purpose was also to 'make work pay' it is still difficult to justify. The IWTC is paid well up the income scale. A caregiver with several children on a family income of over \$100,000 may still receive it, even though s/he does not do any paid work and where the primary earner does not need a payment to make work pay.

<b>Table 6.4. Numbers on the various benefits as at December, 2000-2010</b>						
<small>(Source: Work &amp; Income website)</small>						
End of quarter	Unemployment Benefits	Domestic Purposes Benefits	Sickness Benefits	Invalids Benefits	Other main benefits	All main benefits
December 2000	146,692	109,663	33,560	56,711	45,681	392,307
December 2002	118,139	109,290	39,426	65,779	34,825	367,459
December 2004	65,969	109,339	45,648	72,543	26,200	319,699
December 2006	38,796	100,309	48,650	76,816	22,070	286,641
December 2007	22,748	98,154	49,093	80,082	19,655	269,732
December 2008	30,508	100,282	50,896	83,501	20,989	286,176
December 2010	67,084	112,865	59,988	85,105	27,665	352,707

<sup>40</sup> While the technique, using difference-in-differences analysis may have been standard, the choice of the comparator of unemployed people aged 15-65 years in this case is highly questionable (St John & Dale, 2010).

Even between 2004 and 2007 when numbers on the DPB fell, there were numerous other factors at work. The labour market was exceptionally tight and unemployment itself was falling rapidly. The minimum wage was increased a total of 33% from NZ\$9 per hour to NZ\$12 between 2004 and 2008. In addition, the WFF tax credits threshold was higher and abatement lower than it had been, child-care subsidies and access improved markedly, and case management can be expected to have helped.

Exits from benefits may not have entailed a significant increase in hours of work as the fall in numbers of DPB recipients was greatest among those people with an existing attachment to the labour market. As Table 5.3 illustrates, merely getting off the DPB and into 20 hours' low-paid paid work may actually cost the government more and the argument that 'work is the way out of poverty' is only true when tax credits are used to make work pay.

It is also highly likely that some employment of those who are subsidised may be at the expense of those who are not. Displacement may also occur between partnered women and sole parents as the incentives for partnered women to work under WFF are, in fact, reduced. This appeared to have been borne out in the official evaluation:

*The difference-in-differences and longitudinal regression modelling results provide evidence that couples with children were less likely to both be in employment after WFF, by around two percentage points. (Dalgety, 2010a)*

Is it less important that partnered women work? Are their children's needs different? Do they not face the same risk of losing touch with the labour market? As with other aspects of the evaluation the Ministry did not seem to understand that a 'statistically significant' result is not the end point of an evaluation that should be concerned with whether the social outcomes are worth the money spent (McCloskey & Ziliak, 2008).

Was the child poverty goal achieved?

In terms of meeting poverty objectives, by 2008, the WFF package had reduced child poverty on official measures (see Chapter 2). The fall in child poverty rates from 2004 to 2007 for children in 'working' households was large (39% to 12%). Thus WFF helped to significantly reduce the proportion of poor children who came from 'working' families. Nevertheless about one in three of all poor children still came from families where at least one adult was in full-time work. It is clear that without WFF, hardship rates would have been even higher, but they still remained above the EU-25 median (Perry, 2010).

For 2008 the MSD reported that one in five children (19%) was still in the lowest two categories of living standards:

*They 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, 2009b, p. 46)*

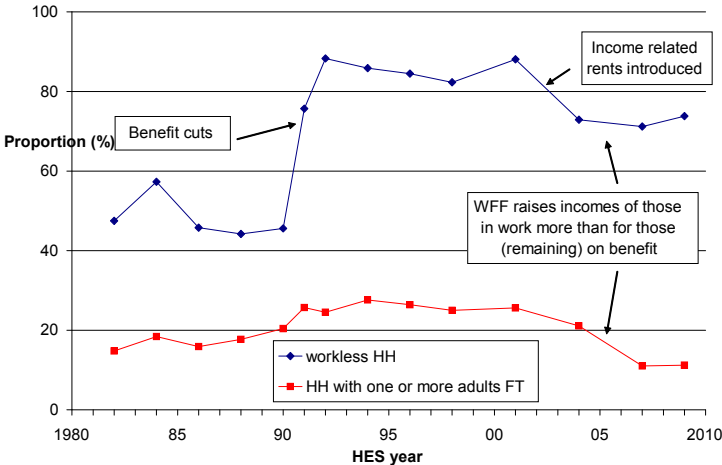
Importantly:

*...child poverty rates in workless households are consistently several times higher than those for children in working households (three to four times higher in 1992 to 2004, six to seven times higher in 2007 and 2009 after WFF). WFF had little if any impact on the poverty rates for children in workless households. (Perry, 2010, p. 109)*

The extent to which poor children, in benefit-dependent or 'workless' families who by definition miss out on a substantial part of the WFF tax credits, experience poverty is illustrated in Figure 6.4.

**Figure 6.4. Poverty rates for children in 'workless' and 'working' households**

(AHC 60%, fixed line) (Source: Perry, 2010, p. 109)



The problem is not that the IWTC failed to reduce child poverty but that the reduction was selective. It applied only in those families who met the work criteria, and excluded those children who needed it most: the poorest children. Even the official evaluation concedes:

*The WFF changes met the “income adequacy” objective as low and middle income families received the bulk of the increased expenditure, and child poverty rates were reduced for lower income families with at least one adult in paid work. However there was no significant change in hardship rates for beneficiaries with children. (Dalgety, 2010b, p. ix)*

Human Rights Breaches by the IWTC Alleged

The IWTC is a significant payment for children but is denied to the poorest children, in effect leaving them behind, in poverty. The IWTC is not insubstantial, for example it is worth 40% of total WFF tax credits for a family with one child (NZ\$60 out of NZ\$148 per week) and its net value is around 20% of the sole parent benefit. One way of looking at the size of the problem is to see that since the introduction of the IWTC, families that have been denied this payment for their children have had a cumulative loss from their asset base of around \$2.5 billion.

Rebuilding the asset-base and reversing debt accumulation by poor families will now be a very challenging task requiring strong redistributive policies on many fronts. However, removing the discrimination by adding the IWTC to the FTC would provide a targeted payment to families below the median income and would have an immediate and significantly positive effect on the measured child poverty rate.

In a challenge to the Government, a class action: CPAG v Attorney General, was heard in the Human Rights Review Tribunal in mid-2008. CPAG claimed the IWTC constitutes unlawful discrimination under Part 1A of the Human Rights Act 1993 and breaches New Zealand’s obligations under the United Nations Convention on the Rights of the Child. The history, documents and decisions of this protracted legal challenge can be accessed at [www.cpag.org.nz](http://www.cpag.org.nz) and a summary is provided in Appendix 1.

CPAG's argument was that the IWTC is part of weekly family assistance to help meet the needs of low income children but access is determined by the parents' employment status and hence the payment is discriminatory. The outcome is to reduce the poverty of those children whose parents are in work while leaving the children of those who do not qualify further behind. Māori and Pacific Island children are disproportionately affected.

A profound issue that human rights ought not be conditional on paid work is illustrated by the CPAG case, as discussed by Amanda Reilly (Bedggood & Gledhill, 2011):

*.... it is suggested that caution should be exercised when characterising the right to work as the fundamental underpinning of other rights. Unless it is possible to guarantee paid work to every single person regardless of the state of the economy, and individual's state of health or their care responsibilities, tying the enjoyment of other rights too closely to the right to work can lead to injustice. It should also be noted that Article 11 of the International Covenant on Economic, Social and Cultural Rights separately guarantees a right to an adequate standard of living which is not contingent on paid work. The decision of the Tribunal in the Child Poverty Action Group case that the discrimination and disadvantage suffered by the children of beneficiaries by the In-Work Tax Credit is justified because of the work incentive it provides to the parents of such children seems at odds with the Covenant read as a whole. (Reilly, 2011)*

In a 100-page judgment, the Tribunal upheld the claim of discrimination against 230,000 of the poorest children in New Zealand (22% of all children under 18) who do not benefit from the IWTC:

*We are satisfied that the WFF package as a whole, and the eligibility rules for the IWTC in particular, treats families in receipt of an income-tested benefit less favourably than it does families in work, and that as a result families that were and are dependent on the receipt of an income-tested benefit were and are disadvantaged in a real and substantive way. (Human Rights Tribunal 2008: para 192)*

While the decision that discrimination has been proven is significant and of international interest, the declaration CPAG was seeking: that the IWTC was illegal under the Act, was not achieved. The decision has been appealed and is to be heard in the High Court in September 2011.

## 2011 Budget changes

As noted, in the lead-up to the 2011 Budget, WFF was repeatedly painted in the media as too generous, and a suitable target for axing in order to reduce the Government's budget deficit. In the budget the Minister of Finance announced that the WFF threshold is to be reduced from \$36,827 in 2011 to \$35,000 by 2018, and the rate of abatement of the WFF payments is to rise from 20% to 25% over the same period.

The various business comments on the changes were approving if disappointed that they were not more dramatic. The changes were claimed by the media to create 'winners and losers'. For example, Simon Collins wrote in the NZ Herald that a low income, four-child family was to gain around \$14 by 2012 while a top income family lost only around \$8. This analysis was quite simplistic but added to the reassurance from the government that the sacrifice required was minimal and manageable. A family on a high income with multiple children was even found to proclaim that 'Cut in tax credits good move' (NZ Herald, 20th May).



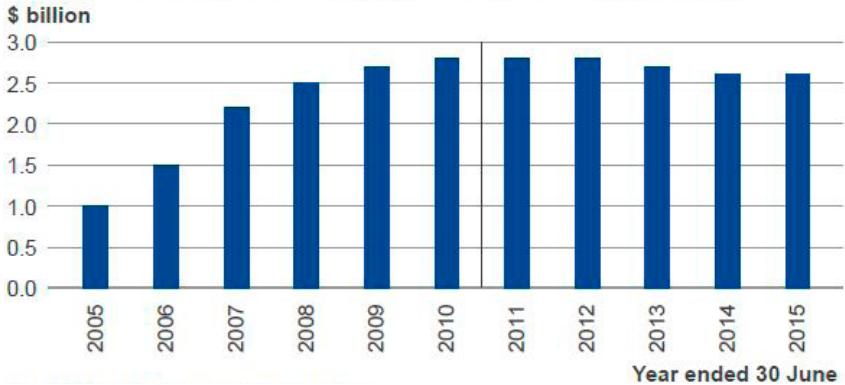
Unfortunately, in reality, these changes signal a harsh direction, especially as the government has promised that there will be no further changes (presuming continuous election until 2018). In justifying the changes the Minister of Finance claimed:

*The cost of Working for Families has roughly doubled from about \$1.5 billion in 2005/06 to about \$2.8 billion this year. That kind of growth is no longer sustainable and without changes the scheme would quite quickly become unaffordable.* (Bill English, Beehive news release, 19th May)

However the data from the budget (Figure 6.5) tell a different story. The strong growth shown to 2008 was a result of WFF being phased in from 2005. WFF was in large part a catch up programme as family assistance had fallen far behind in real terms, and far behind comparable countries such as Australia.

Far from showing rapid growth, nominal expenditure on WFF slowed markedly between 2009 and 2010, was static between 2010 and 2011, and for the financial year 2012 growth was projected to be zero. This is surprising as one might have expected a growth in

**Figure 6.5. Working for Families expenditure** (Source: Budget 2011)



nominal expenditure given the GST inflation adjustments to WFF in 2010 and lower family incomes in the recession. The lack of expenditure growth may reflect in part that the threshold was frozen in 2010 and the IWTC is not indexed. However, it is likely also to reflect that as WFF is currently designed, the Government actually saves money when low-income families lose work as entitlement to the IWTC is lost at the same time. A properly designed family assistance programme would provide a cushion in a recession and protect children.

Table 6.5 sets out the actual impact of the budget policy direction and contrasts it with that in Australia. The figures are illustrative only, using the example of a one-child family sitting at the current threshold. The 2011 New Zealand Budget projected a cumulative 5% inflation adjustment in 2012, 2014, 2016, and 2018. Although the Australians adjust annually, the same method has been used for both Australia’s and New Zealand’s calculations. By 2018, wages will have risen with inflation and growth, but it is assumed conservatively that gross wages grow only as fast as inflation.

The results indicate that by 2018 this illustrative family is getting only \$120 a week (including the IWTC) as compared to \$180 with full indexation. The 2018 threshold of \$35,000 in New Zealand is the equivalent of \$29,000 in 2011 dollars which is only slightly over the minimum wage.

A family in Australia who gets the maximum of their tax credits today by 2018 gets A\$206 per week as the full entitlement. The 2011 New Zealand threshold is already only 81% of the Australian threshold or 61% if compared in New Zealand dollars. By the time we get to 2018 the New Zealand unadjusted threshold is 64% of the Australian one.

The contrast is even more stark if one of the children is a newborn. For that first year of the child’s life, by 2018 a New Zealand family who today sits at the current threshold gets \$143 per week with



abatement from NZ\$35,000. An Australian family gets \$311 per week with abatement of only part of it from A\$55,000.

<b>Table 6.5 Comparing New Zealand and Australia: 1 child under 15 family at current threshold</b>					
<b>Year ended March</b>	2,011	2012	2014	2016	2018
<b>New Zealand (NZ\$)</b>					
Threshold if indexed	\$36,827	\$38,668	\$40,602	\$42,632	\$44,763
Threshold as per 2011 Budget	\$36,827	\$36,350	\$35,900	\$35,450	\$35,000
Abatement	20%	21.25%	22.5%	23.75%	25%
Effect of inflation on wages	\$36,827	\$38,668	\$40,602	\$42,632	\$44,763
1 child <15 if benefit paid	\$88	\$92	\$97	\$102	\$107
1 child <15 full WFF if fully indexed	\$148	\$155	\$163	\$171	\$180
Pre-budget indexation FTC only	\$88	\$92	\$97	\$102	\$107
Pre budget FTC+IWTC	\$148	\$152	\$157	\$162	\$167
Family on \$36,827 WFF post budget	\$148	\$143	\$137	\$130	\$120
If new born and no PPL and child qualifies for PTC	\$171.08	\$166	\$160	\$153	\$143
<b>Australia (A\$)</b>					
Threshold indexed	\$45,112	\$47,368	\$49,736	\$52,223	\$54,834
Abatement	20%	20%	20%	20%	20%
Effect of inflation on wages	\$45,112	\$47,368	\$49,736	\$52,223	\$54,834
Full tax credits 1 child (under 5)	\$170	\$178	\$187	\$196	\$206
If child is new born and no PPL	\$272	\$283	\$292	\$301	\$311

It goes without saying that the 'Tasman gap', between what the poorest one-child family gets because they don't qualify either for the IWTC or the PTC, is dire. In New Zealand such a family gets \$107 per week by 2018 whether or not there is a newborn. In Australia, the poorest family's amount is \$206 per week, and \$311 per week with a newborn.

Compounding this gap is the tax payable on low incomes (see Chapter 8) including the effect of GST. Appendix 3 sets out the range of other benefits for families and explains how the Australian system is far more generous to middle and higher income families, and to sole parents. Even recent budget changes in Australia have only impacted minimally, focusing on freezing the upper income threshold of A\$150,000 as the cut out point for some payments.<sup>41</sup>

#### Unintended consequences of bad policy

WFF is far too complicated. Navigating the maze of benefits, supplementary payments, family tax credits, abatements, shared care rules, hours of work requirements, reassessments, demands for payments, and penalties, is hugely demanding even for the most expert. Without understanding how the various tax credits work, a sole parent is supposed to respond by getting a job, any job. The IWTC, the FTC, and the MFTC have different criteria and abatements. The required fixed weekly hours of work are far too difficult to police and monitor consistently in a modern, casualised labour market.

<sup>41</sup> This is not to imply the Australian policies are perfect. They have, for example, increased the paternalistic control over benefits for teenage and indigenous families.

Work & Income wants to know about every single extra dollar that comes the way of the sole parent, including any helpful payments from the other parent or from the extended family. The IRD and Work & Income definitions of what constitutes a relationship are inconsistent, with Work & Income keen to say there is a relationship if there is evidence of financial support. Work & Income peers into the bedrooms of the poor to see if the sole-parent is co-habiting and therefore not entitled to a benefit; on the other hand, the IRD, even less qualified in social matters, peers into the bedrooms of the poor to see if she is not co-habiting so that she can be denied the IWTC for her children. Families can receive a terrifying torrent of letters from different parts of the IRD and Work & Income and become totally confused and very anxious, especially when overpayments of WFF are alleged along with demand for interest payments on debts accrued.

The IWTC can be paid to a mother while she is in a relationship even if she is not in paid work, providing her partner works 30 or more hours. However, any overpayment becomes her debt even when it is an increase in his income that has caused it. If they split up, and even if they remain independent from the benefit system and he continues as before to support her in a full-time care-giving role, she loses entitlement to the IWTC and is thus liable for repaying any so-defined 'overpayment'. The work-based logic appears to be that because she is living on her own she should now be expected to work 20 hours a week outside the home. There is no regard for the needs of the young child, nor for her primary duty of care. The interests of the child have completely vanished from the policy.

It is possible for a sole parent to receive demands for reassessed WFF tax credits for previous tax years. While the IRD will write off such assessments in cases where she has no money, this is a very scary time for her. Furthermore, under the newly adopted definitions of 'family scheme income'<sup>42</sup> payments from grandparents trying to assist their struggling children and grandchildren may also be treated as family income for abatement.

Shared care has emerged as another issue. If a couple is separated, the WFF is apportioned provided the other parent provides care 5/14th of the time in each fortnight. This might be every second weekend and some overnight stays. It is therefore possible for a sole parent to get a reduced WFF of only \$56.37 even though s/he has the child all of the days of the entire working week and cannot work, while the other parent gets \$91 because the IWTC is not apportioned for shared care and only those in work are entitled. If the couple are not separated, the at-home parent would be paid all of the WFF money. There is no justice in the in-work parent getting the bulk of the child payments based on spurious definitions of entitlement.

As the Human Rights Tribunal decision clearly states, the IWTC is a payment for children.

*The Crown's argument that the challenged tax credits cannot be described as 'child-related' has no basis whatsoever in the evidence we heard.* (Human Rights Tribunal, 2008, p. 63)

It is also noted that the criteria for shared care are different for WFF and Child Support (see Chapter 8). This causes an enormous amount of confusion. If the tax credits were associated solely with the child rather than work status of the parents, they could be left un-apportioned, with only Child Support adjusted and then, only if genuine shared care of a significant nature was in place.

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42 Legislation designed to reduce the ability of higher-income families to reorder their affairs and use vehicles such as trusts and PIEs to limit their income and maximise their WFF.

## Conclusions and key recommendations

Almost all developed countries offer generous tax relief related to family size, and often a universal child benefit is also provided (see Appendix 1 for a discussion of universal child benefits). New Zealand has a flimsy 'house of tax credits', with far too much child-related assistance conditional on meeting a fixed 'hours of work' requirement that is no longer appropriate in the modern labour market. In fact, the reality for many families is 'just in time' employment with uncertain hours, low wages, short-term contracts and long hours spent travelling to and from child-care and multiple workplaces. If children are sick, uncertain employment arrangements add to the stress faced by many parents. Families with uncertain incomes also face the possibility of an end of year tax liability if they take the complicated WFF tax credits.

If we could start with a clean slate it might be possible to design the ideal system. Unfortunately, policy-makers must take existing policy and start with that. To begin to deal effectively with child poverty, the first requirement must be to remove the insidious discrimination in the IWTC. While the IWTC has never been indexed, it is still a very significant element of WFF. If \$60 were added to the Family Tax Credit (formerly Family Support) for the first child, and the IWTC was abandoned, those currently excluded from the IWTC would receive a significant boost to their incomes. If approximately 150,000 low-income families are currently not in receipt of the IWTC, the annual cost would be about \$450 million. This would be highly targeted redistribution, as only the poorest families would gain. The Parental Tax Credit must likewise be unhinged from its work-based criterion and focused on the needs of all new-borns in low income families.

Once this discrimination is removed, consideration should be given to bringing New Zealand back to a more balanced approach by universalising part of the FTC. That way, less income is subject to abatement. Also, all parts of WFF must be properly indexed, although there is a case for a smaller rise in the threshold.

The pretence of being independent from the state by the use of the MFTC should be abandoned along with its draconian abatement rate and hours worked requirement. The formula for the abatement of benefits when there is additional income needs should be improved. The threshold needs to be raised substantially to reflect inflation and the rate of abatement reduced. This way, families with children, especially sole parents, can supplement their incomes seamlessly without working the long hours stipulated by current policy. Such an approach would be more in keeping with the realities of the labour market, and would provide greater security of income as well as giving parents greater flexibility to prioritise their children's needs. This does not preclude mentoring parents back into the full-time paid work or study, once the needs of their children have been met. It does however require greater community commitment to helping parents with young children through the first years of their children's lives.

## Recommendations

- Remove all 'hours worked' requirements from child-based family assistance;
- Reverse the decline in Working for Families as set out in the 2011 budget for the years 2012-2018;
- Simplify to make Working for Families more understandable;
- Abolish the In Work Tax Credit and add \$60 per week to the first-child Family Tax credit;

- Fully adjust the Family Tax credit for inflation every year. Leave the rate of abatement at 20%;
- Administer all payments of the Family Tax credit through the IRD and pay the full amount to one caregiver. No shared care apportionment;
- Abolish the Minimum Family Tax Credit and allow more flexibility for those on part benefits;
- Raise the first \$100 market income threshold for abatement of the Domestic Purposes Benefit to \$180 per week and the second \$200 threshold to \$250. Extend the 30 cents in the dollar abatement of net benefit, effective between \$180 and \$250, to all beneficiaries with young children;
- Eventually **universalise** \$20 of the Family Tax Credit for each child under 5 as part of a return a commitment to the principle of inclusion; but only if accompanied by an increase in the progressivity of the tax scale and not at the expense of meeting poverty reduction among the poorest.

## Appendix 1. CPAG V Attorney General: Background to the case 2002-2011<sup>43</sup>

Since the Labour Government first introduced discrimination against the children of beneficiaries into its family assistance policies in 1996, CPAG has been concerned with the impact of these policies on child poverty. While CPAG complained to the Human Rights Commission in 1996, the Government was not at that time subject to the Human Rights Act 1993 (HRA). However, on 31 December 2001, an amendment to the HRA came into effect which made the Government, its agencies and anyone who performs a public function, accountable for any unlawful discrimination under the HRA (Part 1A).

In 2002, CPAG formally challenged the Government under Part 1a of the Human Rights Act 1993. CPAG argued that children, denied part of their family assistance based on the work status of their parents, were denied the support they needed to keep them out of poverty. At that time the discriminatory policy in question was called the Child Tax Credit.

In 2004 in recognition of the growing problem of child poverty in New Zealand and concerns about benefit dependency the then Government announced a package of social assistance for families called 'Working for Families' (WFF) as described in Chapter 6. The policy reforms had two relevant primary purposes: child poverty alleviation and providing a work incentive. One aspect of the WFF package was the In-Work Tax Credit (IWTC), a payment for families of \$60 per week that replaced the Child Tax Credit. The IWTC was designed to both alleviate child poverty and provide a work incentive. The Government enacted legislation making eligibility for this payment dependent on being 'off-benefit' and working a required numbers of hours: 20 hours a week for a sole parent and 30 hours a week for a couple. Before it came into force, the Government amended the legislation to make the IWTC payable to families higher up the income scale (by increasing the abatement threshold and lowering the abatement rate). From 2006, the case was about the IWTC as that had replaced the Child Tax Credit.

There was a series of arguments from the Crown both about the substantive issues and arguments of a legal nature, including an argument that CPAG could not take a case under the HRA because CPAG was not itself directly affected. The Office of Human Rights Proceedings (OHRP) acted on behalf of CPAG and provided the legal advice. In 2005 the Tribunal ruled that CPAG *did* have a right to take the case. The decision is an important human rights law precedent because it affirms the right of non-government organisations to challenge policy on human rights grounds, without the organisations themselves having to be affected by any discrimination. The Crown appealed this decision, but the High Court Judge ruled that the decision did not lie within his jurisdiction and the Tribunal's decision was, therefore, in order.

The case was heard in mid-2008 by the Human Rights Review Tribunal in Wellington. The record of the Tribunal proceedings in 2008 amounts to nearly 10,000 pages. This includes 21 statements of evidence (totalling over 300 pages), which refer to more than 250 documents (totalling nearly 8,000 pages) and a transcript of over 1,000 pages, which was produced contemporaneously at the hearing.

The Tribunal found that the IWTC is discriminatory because it is available to working families but not beneficiary families and this disadvantages children in beneficiary families. The test of discrimination includes proving that harm is caused and the Tribunal was satisfied it was. However, the Tribunal also found that the discrimination was justified in a 'free and democratic society'. Therefore, the Tribunal refused to issue a Declaration of Inconsistency.

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<sup>43</sup> Full details of the steps along the legal process and associated legal documents are available at [www.cpag.org.nz](http://www.cpag.org.nz).

Following the Tribunal's decision, CPAG filed an appeal in the High Court. As the appeal was inadvertently filed several days late, CPAG needed to seek leave to appeal out of time. In 2009, the Court granted this application and the appeal was set down for hearing in 2010. However, in mid-2010, the Crown sought to recall the Court's decision allowing the appeal to proceed (on the basis of a later Court of Appeal decision). The hearing date had to be abandoned while this issue was considered by the Court. In late 2010, the Court rejected the Crown's recall application, which meant that the appeal could proceed.

CPAG is appealing the Tribunal's finding on justification and the Crown has appealed the Tribunal's finding that the IWTC is discriminatory. The appeal is set down for a hearing in the High Court commencing 5th September 2011. CPAG argues that the legislative measure is inconsistent with the right to be free from employment status discrimination, guaranteed in the New Zealand Bill of Rights Act 1990. Even when due deference is given to the executive and legislative branch of the Government of New Zealand for its capacity and competence to determine legislation in the area of social and economic policy, this discrimination is still not able to be demonstrably justified, in a free and democratic society.

CPAG wishes to thank the Human Rights Proceedings Office, and the lawyers Frances Joychild, Jenny Ryan and Cathy Rogers for their exemplary work on this important case.



## Appendix 2. Is a universal child benefit the answer?

It is tempting to answer that a universal child benefit should be considered for New Zealand. Historically, New Zealand's universal child benefit supported egalitarianism and strengthened social inclusion. The unfortunate fact, though, is that starting from where our tax and welfare systems are in 2011, a universal child benefit could not provide an immediate solution to child poverty.

While many on both sides of the political spectrum understand and appreciate the merits of a universal child benefit, there is a lot of confusion about the nature and purpose of family financial assistance. It is important therefore that we understand the history of New Zealand's original universal Family Benefit and assess the calls to return to a universal Child Benefit in the context of how society and the economy has changed since the post-war period when the Family Benefit was actually worth something and meant something.

Tax exemptions for children were introduced in 1914 but were of benefit to only a few higher income families. Means-tested family allowances were introduced in 1926 under the Family Allowances Act:

*The distinctive features of the New Zealand scheme lie in its being financed wholly at the expense of the general taxpayer and in providing for all families below a stated income-level, regardless of the employment or otherwise of the parents.* (R. M. Campbell, 1927, p. 369)

It was not until 1946, after the end of World War II, that family allowances were extended to all children on the same basis. The Family Benefit was a per child cash payment that went to the mother. A tax exemption could still be claimed by the principal income earner in the family for the children (McClure, 1998).

Unfortunately, those on the highest tax rate with the most money got the most advantage from having a tax exemption. If your extra income is taxed at 60% an exemption of \$100 saves you \$60, but if you earn less and are taxed at 10%, you only save \$10. This inequity was recognised in 1979, when the exemption, worth on average about \$3 per child per week, was added to the Family Benefit of \$3 per child per week. From 1979, New Zealand's universal Child Benefit was a flat, \$6 per child per week.

In 1979, \$6 per child per week<sup>44</sup> was a meaningful amount of money. When abolition of the Family Benefit was announced in 1990, it had lost considerable value because it was never adjusted for inflation. Perhaps because it had been reduced to only a token payment it was an easy target for those who wanted to get rid of it.

People who remember when the Family Benefit was in place as a universal family payment are right to see its advantages. They remember it was very simple and accessible, with a very high take-up rate; and it was paid to the mother exclusively so there was never any argument about whether or not it should be divided in shared care arrangements. It was for the mother to use for the benefit of the child, but often it featured as the only income that she controlled in her own right, so it was very popular amongst women. Another fondly remembered feature was that the Family Benefit could be capitalised for the purchase of the first home, and it enabled many low income families in New Zealand to become proud home-owners.

By 1990 we were making two kinds of payments to families. One was a targeted per child per week tax-credit called Family Support, which started to reduce at quite a low level of total family income. The other payment was the universal \$6 per week Family Benefit. It appeared that extra money we

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44 \$33 a week in 2011 terms according to the Reserve Bank's inflation calculator.

could save by not paying the \$6 at the top end could be used to improve what we were doing at the bottom end. Unfortunately, when the National Government abolished the Family Benefit in 1991, it did so by simply adding it to Family Support so that the whole of family assistance became a targeted payment that did not give one extra dollar to those at the bottom. All it did was to save the state money, the extra saved was not re-distributed to the poorest families.

The silence over the demise of the universal Family Benefit was very hard to understand. One would have thought that women's groups would have been vocal in supporting the retention of that benefit, properly adjusted for inflation. The first lesson to be learned was that arguing that an existing universal payment ought to be continued and expanded is far easier than arguing for it to be reinstated once it is gone. The second is that more targeting of existing payments does not mean the poor will be better off.

*The New Zealand welfare system changed from a balanced mix of targeted and universal income support to a highly targeted system following the radical policy upheavals of the early 1990s. By eliminating payments that could be claimed by the better-off, many people believed that redistribution to the poor would become more generous and effective. Such an expectation was held by at least some social liberals in the 1980s. In the 1990s, it became clear that the targeting process marginalises welfare recipients while facilitating wage and tax cuts. The reason for the observed result of diminished rather than enhanced social provision for the poorest is clear. The more that social assistance is means-tested, the longer the income range over which benefit abatement (ie clawbacks) must occur, and/or the higher the rate of abatement must be. To limit this undesirable impact of targeting, benefits must be kept as low as possible. Hence the position of the poor worsens over time. (St John & Rankin, 2009)*

During the 1990s the Government's method of expansion of Family Support was of concern to CPAG. For example, in 1996, the introduction of the so-called Child Tax Credit was the beginning of the discrimination against families in receipt of welfare assistance within the Family Tax Credit System.

In 2001, CPAG argued that the Child Tax Credit, then a \$15 per week payment for those not on a benefit, should be replaced with a universal family benefit set at \$15 per week per child. Child Poverty Action Group estimated that this would cost \$510 million per year, and children from low income families would receive an extra \$250 million. The problem now is that we are in a completely different world to that of the first half of the twentieth century. If we were to make the In Work Tax Credit universal now, it would be prohibitively expensive with unjustified gains at the top end for families who have already had their incomes enhanced by generous tax cuts.

During the first decade of the new millennium, the over-all income inequality in society has become much more pronounced (see Chapter 3). There is a huge divide between the poorest families and the wealthiest families who are living lives of extravagance that could hardly be dreamed of in the post war egalitarian period. Today, in 2011, there is severe child poverty amongst 20% of New Zealand's children, many of whom are children of parents that are denied the In Work Tax Credit.

What, then, can we do? Should we pay every child, say, \$50 per week to help solve this problem? If we did that as an addition to Working For Families, it would be extraordinarily expensive: \$50 is about \$2,500 per year, and we have 1 million children so that is roughly \$2.5 billion annually to give every child in New Zealand an extra \$50 a week on top of Working For Families. That much money is simply not available in the 2011 or in foreseeable future budgets. Although on the surface it might

appear to address child poverty, it is unrealistic, especially given the low tax rates that now apply to the top incomes.

Another option would be to do away with Working for Families and re-distribute those funds as a universal payment. Unfortunately, doing the calculations shows that Working for Families costs \$2.8 billion annually, and divided among 1 million children is just over \$50 per week per child. Currently, the poorest working family in New Zealand gets \$148 a week for the first child, and another \$61 for the second child under 15 and more for older children. Clearly, a universal payment would deliver far less than Working for Families for those low income working families. Even for those not getting the IWTC, such a payment would make them worse off than they are currently.

While universal provision is desirable, it is not sensible or fair to argue for that until we are adequately providing tax credits at the lowest end of the income distribution. Extending the In Work Tax Credit (cost \$450 million) as suggested in this chapter, is a much more cost effective policy. If we argue for a universal component now, we are arguing to pay child benefits to the wealthy who have become considerably more wealthy than they were a decade ago, while those who were poor have become comparatively and often actually, poorer.

In summary

There are very good arguments for a universal payment, but in 2011 we have very wide income disparities and we do not have progressive taxation to fund redistribution. In addition, the poorest children miss out on payments in the current system because payments are tied to their parents' paid work activity, not solely to income.

A universal payment alone is incapable of addressing child poverty with the current restrictions: fiscally it would mean that in order to make a payment to children that alleviated poverty, the payment level would have to be so high that we could not do it without either raising the top tax rates considerably to pay for it, or sacrificing some other worthy spending. Eliminating poverty has to be the first priority and this requires targeting assistance to the lowest income families. It would be possible (and desirable) to have a universal dimension, comparatively small initially, but the most significant assistance in the immediate future will need to be targeted at the poorest children. This could be the first step towards a universal payment for all children.

### Appendix 3. Lessons from Australia

New Zealand has long been described as a 'laggard' in family assistance compared to other OECD countries (Bradshaw, Finch, & Eardley, 2003). Despite Working for Families, New Zealand now falls well behind Australia both in the generosity and in the design of family assistance. In addition there are many niggardly and unsatisfactory aspects to WFF as outlined in this chapter. Profoundly different to New Zealand, in Australia child-related weekly payments are the same for all children, regardless of the source of their parents' low income, just as they were in New Zealand before 1996.

There are a number of features of the Australian system that make it far simpler, far more generous and humane than New Zealand's. One critical feature is that most aspects are adjusted annually for inflation. But that is just the start.

Families are entitled to a range of benefits and tax credits, a major one is the Family Tax Benefit A (see Table 6.6). The maximum amount of Australian Family Tax Benefit A does not begin to reduce until parents have an income of A\$45,211 and the reduction is only 20 cents for every dollar of income received over the threshold until a base weekly amount of around \$40 a week per child is left. Above \$94,316 (plus an additional \$3,796 for each child after the first) the abatement recommences at a rate of 30%. The income thresholds are annually adjusted for inflation.

<b>Table 6.6. The maximum amount of Family Tax Benefit A (Australia)</b>	
<b>Rates for 2011</b> (Source: Family Assistance Office (Australia))	
For each child	Per week*
Aged under 13	A\$94.32
Aged 13-15	A\$118.48
Aged 16-17*	A\$39.65
Aged 18-24*	A\$48.42

Note: payment includes the Family Tax Benefit Part A supplement (A\$726.35 per child for the 2010–11 financial year). The supplement can only be paid after the end of the financial year. The Australian dollar figures have not been converted to \$NZ dollars, in 2011 the rate is around NZ\$1 = A\$0.75.

\*The budget 2011 increased the payment for older teenagers to the 13-15 rate.

In addition, as shown in Table 6.7 Family Tax Benefit B is paid on a per family basis to families where the principal earner's income is less than A\$150,000 pa.

For two-parent families it is the income of the lower earner that affects how much Family Tax Benefit B the family will receive. The lower earner can have income up to A\$4,745 per annum and still receive the maximum rate of Family Tax Benefit Part B. Payments are reduced by 20 cents for each dollar of income earned over A\$4,745. Single parents automatically receive the maximum amount of Family Tax Benefit Part B if they have an income of A\$150,000 or less per annum.

<b>Table 6.7. The maximum amount of Family Tax Benefit B (Australia)</b>	
<b>Rates for 2011</b> (Source: Family Assistance Office (Australia))	
For each family where the youngest is aged	Per week*
under 5	A\$75.18
Aged 5-15	A\$54.47

Note: the principal earner's income must be under A\$150,000

If the child is a new baby and the family do not qualify for paid parental leave there is a further A\$5,294 Baby Bonus payable equivalent to A\$102 a week for the year. The cut out income for the baby bonus is a family income of A\$150,000.

All up, the maximum annual assistance for a family with one-child under 13, including families on benefits, is either A\$14,105 if there is a baby bonus paid, or A\$8,815 if the child is aged 1-4 and A\$7,738 if the child is aged 5-13. If the child is aged 13-15 the maximum rate is A\$8,993.

The figures for large families and older children are not produced here but also show how much more generous the Australian system is. The only changes made in the Australian 2011 budget were to freeze the annual supplements in the tax credits paid and to freeze the top cut-out threshold of A\$150,000 where applicable and bring older children into alignment with younger teenagers. The Family Tax Benefit Part A for older teenagers is to increase by up to A\$80 a week, on top of the A\$460 million extension of the Education Tax Refund to cover school uniforms.

In addition to the major family tax credits, paid parental leave and the baby bonus, there is a maternity immunisation allowance of A\$251 paid without an income test, a healthcare card for those on incomes under A\$45,114, and a range of rent assistance, childcare rebates and benefits, all fully indexed.

It is also noteworthy that, to prevent overpayments, part of the Family Tax credits is paid as a bonus at the end of the year.

# Chapter 7. Paid Parental Leave in New Zealand: catching up with Australia?

Susan St. John,<sup>45</sup> Andrew FAMILTON<sup>46</sup> and M.Claire Dale<sup>47</sup>



## Introduction

Australia and New Zealand have both been at the lower end of international comparisons of Paid Parental Leave (PPL) provisions, falling well short of international best practice in terms of time offered, generosity of payment and gender equity provisions (NZ Department of Labour, 2008). Then, with the Australian scheme introduced on 1 January 2011, financial support for parents of newborns became far more generous than that offered in New Zealand. Australia's PPL is paid at a higher level over a longer time, with broader coverage. Australian policy recognises the importance of a mother's links to the labour market; at the same time it emphasises the beneficial role that parental leave has on the full development of children, and therefore the investment in the future workforce. This 'child-centred' approach is evidenced by the generous Baby Bonus payment available for those parents who do not qualify for PPL.

In contrast, New Zealand's PPL and Parental Tax Credit (PTC) have narrow work-based requirements. The resulting inequities reflect the different nature of the New Zealand discourse surrounding financial support for children. New Zealand's policy is not 'child' focussed; it is based on whether parents are 'deserving' through their paid work contributions. Disturbingly, beneficiaries (and superannuitants) who are caring for newborns are specifically excluded from entitlement to any additional assistance from either the PPL or the PTC.

## Paid Parental Leave in Australia

Australia's PPL scheme was originally announced on 14 July 2010 as a new entitlement programme for eligible parents or carers of children born or adopted from 1 January 2011. The scheme recognises that "taking time away from work for a new baby is a common part of working life", with the aim to facilitate parents spending time with their newborns to "promote early childhood development" (Government of Australia, 2010a).

The policy change is based on evidence suggesting that the first year, and particularly the first six months of a baby's development, is strongly influenced by parental care (Australian Productivity Commission, 2009; OECD, 2007a). The scheme also argues that PPL will bring long term benefits to business by improving the quality of the next generation of workers (Government of Australia, 2010b). This recognition of the role that PPL can play in improving the child's development clearly underpins the Australian Government's parental assistance policies and programmes.

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The Australian Productivity Commission's inquiry into PPL, *Support for Parents with Newborn Children*, concludes that:

- there is compelling evidence of child and maternal health and development benefits from a period of absence from work for the primary caregiver of around six months;
- there are sound rationales for stimulating women's labour force participation rates to overcome the disincentives imposed by the existing welfare and tax systems on women's labour force participation; and
- PPL could advance broad social objectives, such as achieving greater gender equity and balance between paid work and family life.

The Australian Productivity Commission argues that unpaid activity is work, and parental leave thus has an inherent value in itself. Parental leave changes the mix of jobs in the economy but does not destroy jobs. In stark contrast, the New Zealand discourse neither recognises the value of caring for children, nor recognises this unpaid activity as work.

In Australia, a new parent can be a full-time, part-time or casual worker, or a worker with multiple employers, and still be eligible for PPL if they satisfy the work test. Since full-time workers are more likely to receive employer-funded paid leave, making it easier for non-standard workers to fulfil the work requirement broadens access to PPL across different types of work. Eligibility requires the recipient to be an Australian resident and primary carer for the child, with an adjusted taxable individual income of less than \$150,000 for the previous financial year. Recipients must also satisfy a work test by having worked at least 1 day a week for 10 of the 13 months prior to the birth or adoption of the child (i.e. 330 hours).

The 2011 taxable payment rate for PPL is A\$1,140 fortnightly (A\$570 weekly), and is paid for 18 weeks (A\$10,260 total pre-tax).<sup>48</sup> Parents can share the paid parental leave, for example, a mother may claim 13 weeks and then transfer the remaining 5 weeks of paid leave to the partner who is the primary carer for that period. If the employee has been in the job for longer than 12 months at the date of birth or adoption, the government-funded payments are administered by the employer. The rationale for employers administering the PPL payments is to encourage firms to remain in contact with the new parent/employee, thus maintaining their links to the labour market (Government of Australia, 2009).

For those who do not qualify for PPL, there is a Baby Bonus payment for newly born or adopted children. To be eligible, the primary carer of the child must be an Australian resident, and have a family taxable income of under A\$75,000 in the 6 months following the birth or adoption of the baby.<sup>49</sup> The Baby Bonus is A\$5,249, paid as 13 equal fortnightly payments of A\$407.23. Claiming either the PPL or the Baby Bonus entitlements precludes claiming the other.

In the Australian social assistance system, PPL is paid for 18 weeks, is taxable and interacts with other benefits. A parent receiving PPL cannot receive the Family Tax Benefit B (FTCB). Most families are better off with PPL, but if their circumstances are such that they are better off with FTCB and the Baby Bonus they are entitled to that as an alternative.<sup>50</sup>

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48 Under Australia's income tax schedule, the first \$16,000 of a person's income is effectively tax-free.

49 This income limit is equivalent to an annual adjusted taxable income of A\$150,000.

50 The 2011 maximum Family Tax Benefit B payment see Chapter 5 Appendix 3.

## Paid Parental Leave in New Zealand

Since 1987, New Zealand has provided 52 weeks of employment-protected unpaid leave under the Parental Leave and Employment Protection Act 1987. A PPL scheme introduced in 2002 aimed to achieve: gender equity within both the labour market and within families; improved health outcomes for mother and child; and income stability for families (Callister & Galtry, 2009). Amendments have since lengthened PPL from 12 weeks to 14 weeks and widened eligibility, for example self-employed parents have been able to qualify since July 2006.

New Zealand's work-test for PPL requires a mother to have worked for the same employer for at least 10 hours a week (at least one hour in every week or 40 hours a month), for either 6 or 12 months prior to the due date of the baby. Complying with the 6 month criterion entitles the parent to 14 weeks' PPL; and complying with the 12 month criterion also entitles the parents to the 52 weeks' employment-protected unpaid leave.

The Inland Revenue Department (IRD) administers the New Zealand PPL system. Fortnightly payments for up to 14 weeks are based on the mother's gross weekly earnings and range from a maximum of NZ\$441.62 per week (as at July 2010), to a minimum weekly payment of NZ\$127.50, equivalent to 10 hours of minimum wage work.<sup>51</sup>

As in Australia, there are other forms of financial assistance to new parents in New Zealand for those who do not meet the criteria for PPL. As part of the Working for Families (WFF) package, the Parental Tax Credit (PTC) provides up to \$150 weekly for the first eight weeks following the birth of a child, totalling \$1,200. The PTC abates after other WFF tax credits as described in Chapter 5. For a family with only a single newborn, total WFF tax credits cut out at an annual income of \$114,424. If the family already has other children then payments cut out at higher levels of income.<sup>52</sup> However, to be eligible for the PTC, the family must effectively be a 'working' family, as no PTC is paid if the family income for the full eight weeks includes:

- an income-tested benefit, even if it is suspended;
- New Zealand Superannuation;
- a veteran's pension;
- a student allowance; or
- accident compensation from ACC, unless it is for less than three months.

Eligibility for the PTC is thus strongly linked to the recipient's or partner's attachment to the labour market, and many parents either do not satisfy the criteria or qualify for a part payment only. While PPL payments will be higher for most people, a mother with annual income under \$19,350 in a job she is taking leave from may be better off taking the PTC (The Inland Revenue Department, 2010).

### Who loses out?

PPL in New Zealand is tied to participation in the labour market and the arbitrary requirements of the work test have some unfair consequences (Callister & Galtry, 2009). Firstly, a new mother could have a long history of productive work but not in the 6 months immediately preceding the expected arrival of the baby. Also,



<sup>51</sup> For example, a self-employed person who makes a loss but satisfies the hours of work.

<sup>52</sup> Refer to the IRD's Working for Families Tax Credits worksheet 2010-2011, at <http://www.ird.govt.nz>.

New Zealand has a large number of citizens living abroad: there may be women with long working histories abroad who do not meet the eligibility requirement for having worked in New Zealand.

One of the policy motivations for PPL being tied to labour market participation is that it encourages women to have long-term experience in the labour market. Yet women play a much more active role in the contemporary labour market than even 20 years ago, and most mothers return to the labour force whether they are eligible for PPL or not. Therefore, the need for a PPL scheme to maintain mothers' links to the labour market, though still a valid motivation, is not as important now as it may have once been (Callister & Galtry, 2009).

Moreover, there is doubt that all eligible families in New Zealand are aware of the availability of financial support, particularly for first-time parents. The first report in the *Growing up in New Zealand* series stated that while 77% of mothers were aware of the WFF tax credits, the other 23% were not. Two thirds of this group were first-time mothers (Morton & al, 2010).

New Zealand's work-oriented parental support schemes are questionable during a significant recession and an increase in non-standard work patterns. In the period immediately prior to a new baby's birth, some families with long, productive working history may not fulfil the work test criteria either through redundancy or reductions in working hours. Under the current system they are, in effect, deemed undeserving of financial support. If this financial pressure does not enable parents to care for their children optimally then the inadequacies of the New Zealand PPL, especially in the drawn out recession, will increase the number of at-risk children.

The Families Commission has argued that, consistent with international trends, PPL in New Zealand needs to adapt to current trends towards labour market flexibility. The Commission suggests easier access to parental assistance, for example through the removal of the minimum hours test, and payment after employment or self-employment for six months in the last 12 months prior to birth or adoption, without a limit on the number of employers or positions (Families Commission, 2010a).

#### Comparing Provision of PPL: Australia and New Zealand

Australia's PPL appears much more generous than that available to New Zealand parents. The maximum gross amount of PPL in New Zealand totals NZ\$6,182.68, or roughly 485 hours of work at the minimum wage of NZ\$13. The actual amount can be as little as \$1,785 for those working part-time. In Australia, the total gross PPL is A\$10,260 which is equivalent to 684 hours of work at the adult minimum wage of A\$15, and the amount paid is not based on previous earnings.

The level of payments is important because it influences the length of leave that a parent will or can take. In New Zealand, many mothers would like to take longer leave: the biggest barrier to taking the full 12 months of parental leave (paid and unpaid) is financial (Callister & Galtry, 2009). This suggests that PPL lessens but doesn't alleviate financial pressure to go back to work and that increasing the level of payments may increase the average length of parental leave taken.

Australia's system provides a much higher minimum payment for all low income families of newborns who do not get PPL as discussed in Chapter 5. The Baby Bonus is much more generous and universal than New Zealand's PTC (A\$5,249 as against NZ\$1,200). Where the PTC abates as income increases, the Baby Bonus does not; it simply has an upper income limit. The combination of the Baby Bonus and Family Tax Credit B make the extra support for a newborn in Australia nearly as much as PPL.

Despite being extended from 12 to 14 weeks, New Zealand's PPL scheme is still shorter than the 18 week Australian scheme. There is evidence that for many parents, government-funded PPL schemes are claimed after all other private parental leave. That is, they extend the total PPL that a parent can access. In fact, the introduction of a PPL scheme in Australia was partially motivated by a desire to increase the length of leave taken by Australians who currently take only a relatively short period (Australian Productivity Commission, 2009).

### Sharing the caring and work

When paid parental leave is available for a short time only, it is difficult for fathers to play a direct caregiving role. Mothers are clearly much more likely to provide the care on a daily basis for a baby of under 14 weeks but when women do all the formal caregiving in a family, their opportunities for paid work diminish. They typically work either in jobs with lower pay and greater flexibility or are forced to work part-time, or fail to work at all.



However until men's lives become more like women's and the work of caring in society is more equally shared, this inequality will remain a structural problem. In European nations such as Norway, Germany, Iceland and Portugal, not only is paid Parental leave much more generous than in New Zealand or Australia but part of parental leave is specifically for fathers. For example in Norway, after the birth of a child each parent receives two week's paid parental leave. They can divide up the remaining 46 weeks of parental leave at full pay or 56 weeks at 80% of full pay as they prefer, but a 10-week quota is set in place for fathers only to encourage paternity leave. Fathers taking leave increased from 3% to 90% since its introduction in 1993 (Chemin, 22 July 2011).

### Summary and conclusion

Australia's PPL scheme is more generous in both the level of financial support and length of payments. New Zealand citizens living in Australia are eligible for Paid Parental Leave or the Baby Bonus because they qualify as Australian residents. The Families Commission has argued that Australia's relative generosity could reduce the likelihood of these New Zealanders returning when they have children. Given that the migration of skilled New Zealanders to Australia and the implications of this for economic growth are a prime concern of the government (Whitehead, 2010), the significant gap in financial support offered to new parents from 1 January 2011 is clearly an issue that merits attention.

While both the Australian and New Zealand schemes are linked to labour market participation there are subtle differences in the justifications for this link. The Australian scheme helps mothers preserve attachment to the general labour market but it also attempts to link them specifically to their previous employers, such that they are more likely to continue to work with those employers when they return to work. The aim is to maintain "job and employer-specific skills" that would otherwise be reduced (Australian Productivity Commission, 2009). By contrast, the emphasis on work in New Zealand's scheme lacks this focus on continuity of employment and skill-based motivation.

The Australian Productivity Commission has also argued that unpaid activity is work. Parental leave is thus seen as having an inherent value in itself and changes the mix of jobs in the economy but does not destroy jobs. This recognition of the value of caring for children, and the recognition of this unpaid activity as work, is almost completely absent from the New Zealand discourse.

Overall, New Zealand is well behind Australia in its support for new parents, a reflection of the far more rigid thinking about the role of paid work. By contrast, Australia appears relaxed about a more generous paid parental leave scheme with less strict work requirements and a far more generous Baby Bonus entitlement for those parents who do not satisfy the work requirements for PPL. In New Zealand many newborns get no extra assistance at all. The children negatively affected by being left out of this extra government financial support are the very poorest children whose needs are greatest. Their number will increase as the recession continues to drag on.

### Recommendations

- Improve the level and coverage of financial support for all new parent/s and their newborn children so that none miss out.
- Investigate a Baby Bonus equivalent to ensure all newborn children are funded for the best possible start;
- Change the PPL eligibility requirements so that the work test does not require the same employer and promote much more flexibility in meeting work requirements;
- Investigate how to encourage firms to remain in contact with their employees, and enable new parents to maintain their links to the labour market;
- Allow parents/primary caregivers to share the PPL. Investigate ways to make men's life more like women's so that both work and care are shared;
- Pay the PPL at a standardised rate, rather than an earnings-based percentage.

# Chapter 8. Reforming Child Support

Susan St John<sup>53</sup> and Michael Fletcher<sup>54</sup>

## Introduction

Child support is governed in New Zealand by the Child Support Act 1991 and administered by the Child Support division of Inland Revenue. The Act affirms the right of children to be maintained by their parents and the obligation of parents to maintain their children. Two key objectives are to enable:

- caregivers of children to receive support in respect of those children from parents without the need to resort to court proceedings;
- the State to offset the cost of providing an adequate level of financial support for children and their custodians by the collection of a fair contribution from the liable parent.<sup>55</sup>

The purpose is to ensure liable parents take financial responsibility for their children when marriages and relationships end. The scheme is compulsory for custodial parents who receive a sole parent benefit such as the Domestic Purposes Benefit to allow the state to recover costs from the non-custodial parent. Other parents may choose to apply for Child Support assessed by IRD, may get Child Support payments paid through the IRD supported by a parenting order, or through mutually agreed voluntary arrangements. Currently approximately 210,000 children are included within the Child Support scheme (Dunne, 2010). Approximately 84% of custodial parents are women (Chapple & Cronin, 2007).

## How it works

Child Support is payable until the child turns 19 unless the child marries; is in full employment; receiving student allowance or an independent circumstances grant; or in receipt of a welfare or training benefit. The liability is calculated as shown below in the four-step calculation. Where the custodial parent is on a sole parent benefit, Child Support payments up to an amount equal to that benefit are retained by the Crown. If the amount collected is more than the benefit, the excess is paid to the custodian.<sup>56</sup> If the custodian is not a beneficiary the full amount collected is paid to them.

If each parent cares for one or more of the children for at least 40% of the nights (6 nights a fortnight, or 146 nights per year), both parents are deemed to share care and both are treated as a custodian and a liable person. In this situation each parents' liability is assessed and a lower child support percentage is used in the formula below.

### **Four-step calculation of child support** <sup>57</sup>

- The paying parent's taxable income is determined;
- A living allowance is deducted;

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55 The terms 'eligible custodian' and 'liable parent' are those used in the Act to define parents who may be eligible to receive or liable to pay Child Support.

56 This applies to only about 2,000 custodial parents (three percent).

57 For more detail see St John and Rankin (2009), and <http://www.ird.govt.nz/childsupport/paying-parents/workout-payments/calculation/>.



- The result is multiplied by a percentage rate;
- The annual amount is divided into 12 equal amounts and is to be paid by the 20th of each month.

The amount the IRD deducts as the living allowance depends on the personal circumstances of the paying parent. The living allowance is related to gross benefits from Work and Income. For example the exempt amount for single person with no dependents is \$14,281, and for a single or partnered person with two children living with them is \$30,558.

The percentage rate used in the formula depends on the number of children for whom the paying parent must pay child support. When a shared care arrangement<sup>58</sup> exists for child support purposes, the IRD counts each child in the arrangement as 0.5 of a child. The percentages where the paying parent is not in a shared care arrangement for child support purposes are also given in Table 8.1.

Number of children	Not shared care	Shared care
1	18%	12%
2	24%	18%
3	27%	21%
4	30%	24%
5	30%	25.5%
6	30%	27%
7	30%	28.5%
8 or more	30%	30%.

A minimum payment of \$848 per annum applies irrespective of income (this is the amount many liable parents on a benefit are required to pay). There is also a maximum income level set at two-and-a-half times the national average earnings (in 2011/12 the maximum liable income is \$121,833 pa).

### Problems with Child Support

The current New Zealand Child Support regime is seen by many as out-dated, inflexible and unfair. Child Support payments are frequently regarded by custodial parents (mostly mothers) to be inadequate compared to the cost of children and their own loss of income due to forgoing work to care for the child. A culture of payment avoidance, unstable liability calculations and unreliable payments also mean primary caregivers receiving Child Support often feel payments provide little or no real support. The absence of any pass-on to the custodial parents on a sole parent benefit means many of them receive no Child Support at all whilst also discouraging liable parents from paying.

Many countries such as Australia and the UK have already substantially revised their schemes but New Zealand has been very slow to follow suit.

There is international evidence that well-designed Child Support policies can contribute to better outcomes for poor children. The OECD *Doing Better for children* notes that in some countries Child Support is “an important policy tool in reducing child poverty in sole parent families” (2009b, p. 234). Bradshaw (2006) shows Child Support’s contribution to reducing *working* sole parents’ poverty in

58 More information on shared care is in IRD’s booklet: *Helping you understand shared care (IR156)* at: <http://www.ird.govt.nz/forms-guides/keyword/childsupport/paying-parents/ir156-guide-cs-shared-care.html>.

the UK, although pre-reform it had much less effect for non-employed sole parents. In contrast, Chapple and Cronin (2007), conclude that “The role of Child Support payments in direct overall poverty alleviation [in New Zealand] is almost certainly minimal”. Better Child Support policies could contribute to lower rates of child poverty in sole parent families.

In 2010 the Minister of Revenue released a discussion document that outlined a range of options for improving the child support scheme, purporting to “make the scheme fairer and to take into account changes in society since the scheme was introduced in 1992” (Dunne, 2010).

The thrust of the options as discussed further below are revisions to the Child Support formula to recognise lower levels of regular and shared care, take into account each parent’s income less a living allowance and to vary the Child Support payable not only by the numbers of children but also by their age. The Child Support payable would also be based on the parents’ combined income assuming that expenditure on children rises in absolute terms as income rises, but declines in percentage terms (Dunne 2010).

Proposals for change are expected to be considered by Cabinet in late 2011. The discussion document drew submissions from over 2,300 people. The key submission themes included:

- Arguments for both the inadequacy and the excessiveness of child support payments and how they are calculated;
- Issues around recognising shared care;
- Whether child support payments should apply if there is an equal care arrangement;
- The impact that a child support formula based on the income of both parents would have on the incentive for parents to work or increase their earnings;
- The impact on the family income when a parent has re-partnered and the extent to which the cost of supporting children in the second relationship are taken into account;
- Dissatisfaction with current child support penalty rules (Dunne, 2011c).

While the Minister of Revenue has claimed that reform will be more focussed on the well-being of children, few submissions in fact appear to have focussed on that aspect. Perceived unfairness to liable parents (who are mostly fathers) has played a dominant role and few submissions reflect the daily reality for children, and custodial parents (mostly mothers).

What is wrong with current policy?

It is clear that the current Child Support rules can often be destructive to family harmony, while failing to ensure that the custodial parent and their children are supported sufficiently to prevent hardship. Ideally, when there is no benefit involved, parents can come to their own arrangements by mutual agreement. This appears to have the best outcomes by allowing a high degree of give and take and flexibility (Families Commission, 2009). While any reform must encourage voluntary agreements, by for example providing suitable support counselling, in many cases no such outcome is possible. A sound Child Support scheme also provides a crucial baseline for separated parents negotiating voluntary arrangements.

Under the Child Support scheme, viewed from the perspective of the child and the custodial parent, there are several problems. The first is that, because the formula is based solely on an assessment

of the liable parent's ability to pay, no account is taken of variation in the needs or costs of raising a child. The payment does not take into consideration the increasing cost of children as they age. Nor does it reflect the opportunity cost of the primary caregiver, usually the mother, who forgoes work to care for the child.

The adjustment in the living allowance to reflect the liable parent's responsibilities of care for children in a new relationship decreases the payments made to the custodial parent although these children may not have any biological or legal tie to the liable parent, nor evidence any actual dependency. If a non-custodial parent moves in with a new partner and their children, their child support payments are reduced. The resulting instability of liability means payments are not always a reliable means of support to custodial parents and their children.

There is a lack of coherence behind the formulae. While it may be reasonable that Child Support liabilities are reduced if the ex-partner has a new child, it is less clear that it should be reduced on account of a new partner's existing children, especially in cases where those children's other parent is already paying Child Support.

A second problem is the absence of any 'pass-on' of Child Support to custodial parents who are receiving a sole parent benefit. Ensuring some part of Child Support payments is always passed on to the custodial parent provides additional income for sole parent beneficiary families. It also improves non-custodial parents' willingness to pay Child Support. Many countries permit full or partial pass-on and, for example, both Australia and the UK introduced forms of pass-on in their recent policy reviews. In New Zealand, the Minister's discussion document options did not include pass-on, concluding only that "no changes are warranted at this time" (Dunne, 2010 p. 70).

The third problem relates to shared care. As Chapter 5 noted, the definition of shared care for Child Support is different from that used for Working for Families. This can lead to confusion and unfairness. For Child Support the criterion is six nights a fortnight, which is taken as 40% of the time; for Working for Families it is on an hours basis, with shared care established if the hours are split at least 9/14 and 5/14 with a minimum of 122 days (for the non-custodial parent). The use of the six nights criterion can be particularly inappropriate if the child is preschool as it cannot be assumed that a parent who looks after the child overnight also has the child in the day-time, i.e. for the full 24 hour period. Thus it is possible for a mother to look after the child every day of the working week and be unable to work herself, and to have the full responsibility for any preschool dropping and picking up or care when sick, and yet to be assigned only eight days a fortnight because the other parent takes the child overnight for six nights.

For some non-custodial parents, the six nights' rule is also unfair in that it may fail to recognise the time they do spend caring for their child. If a lower level of nights (14% has been suggested in the discussion document) was used in the formula, however, many custodial parents who may already be struggling would get less financial assistance, not more.

Moreover the number of nights spent with each parent does not necessarily reflect their financial commitment. Primary caregivers often cover the costs of clothing, education and health care, while many carry the cost of forgone employment because of unreliable shared care arrangements. It is not uncommon for mothers to have to step in at short notice when children become sick or the other parent fails to provide for their children (Tolmie, Elizabeth, & Gavey, 2010a).

Although the system does have a process for parents to apply for a review of their circumstances and a variation in assessments, it is often a wearying and difficult process to challenge an assessment made on the 'nights' basis.

Tying the noncustodial parent's financial responsibility to the number of nights liable parents spend with their children in a fixed formula creates a monetary incentive to increase care. However in some cases shared care is not always the best outcome for the child. There may be situations in which liable parents are violent or abusive, or otherwise unfit for sole responsibility of their child. Shared care may actually be detrimental to children's wellbeing when it results in exposure to parental conflict or disrupts the development of a secure attachment to the primary caregiver (Tolmie, Elizabeth, & Gavey, 2010b).

A fourth problem is administrative issues and non-payment. There is often a lengthy delay in first receipt of Child Support by the custodial parent during which time the custodial parent may have little or no income at all. Further, once liability and payment amounts are established, Child Support money is only passed on to the custodial parent when and if it has been received by Inland Revenue. In June 2010, total Child Support debt (including penalties) stood at \$1.944 billion (Dunne 2010, p. 57). Unlike New Zealand, about half the OECD countries now have 'advance maintenance' provisions in which the government continues to pay the custodial parent the due amount effectively taking on the costs of seeking reimbursement from non-custodial parents itself (OECD 2009 p.228). That is, arguably, as it should be, as the state has low cost, coercive powers to enforce payment that are not available to individuals.

In summary, the main problems with current Child Support policies are: weaknesses in how the formula used accounts for parents' costs and needs, including a failure to address the opportunity costs for a parent forgoing employment in order to care for the children; the lack of any pass-on of Child Support payments where the custodial parent is on a sole-parent benefit; inflexibility with respect to shared care arrangements; and administrative problems including the lack of advance maintenance provisions to ensure custodial parents' incomes are maintained when a custodial parent fails to keep up with payments.

#### Lessons from Australia and the UK

There are lessons to be learned from the experience of Australia and the UK, both of which have reformed their child support arrangements toward a more child-centred approach and focus. These reforms have been comprehensive and include moves to enable a primary caregiver parent on a benefit to receive Child Support payments directly.

#### **Australia and the UK**

A CPAG backgrounder on the history of child support and the reforms in Australia (Casswell-Laird, 2010) outlined a number of important reforms and their implications for New Zealand legislation. Australia has shifted away from focusing solely on the capacity of the liable parent to pay, towards the welfare and financial maintenance of the child. New legislation takes into account the actual cost of raising children and recognises that the expenditure on raising children increases with income but declines as a proportion of income. Australia has also endeavoured to acknowledge some degree of the caregiver's lost earnings through higher rates to 0-4 year olds given that childcare costs are likely to be highest for very young children.

In contrast to New Zealand, in Australia, the custodial parent is always given a percentage of the money collected from the non-custodial parent, even when receiving income support. It was believed this would create incentive for the liable parents to comply with child support payments as they can see the direct benefit to their children. If the care-giving parent is on a benefit, any child support payment is treated as income.

The Australian scheme does not automatically include step-children in child support calculations. If children are not biological or adopted, liable parents have to prove they are financially responsible (the children's parents have died or the child has special requirements).

It is important to note that the Australian reforms were a package of measures aimed at improving the effectiveness of their Child Support scheme overall. Indeed, a recent 'before and after' analysis (i.e., with no consideration of how people might change their behaviour under the new policies) concluded that in general "non-resident parents (mostly fathers) were more likely than resident parents (mostly mothers) to experience net gains under the new scheme" and that "low-income families and resident parents with part-time or casual employment appear to be among those most likely to have been hardest hit..." (Smyth & Henman, 2010, p. 5).

In the UK there have been phased changes to the Child Maintenance programme including moving to allow those on benefits to keep their payments. This policy arose from a concern about child poverty.

*We are tackling child poverty. We make sure parents who live apart from their children contribute financially to their upkeep by paying child maintenance.* (Child Support Agency web site <http://www.csa.gov.uk/>)

Since April 2010, the amount of child maintenance that the parent with care receives has not affected any benefit the caregiver receives (UK Child Support Agency, 2011). Future directions in a green paper emphasise that the child maintenance system needs to be re-balanced towards supporting parents to work collaboratively rather than entering conflict.

*The proposed reform outlined in this Green Paper is intended to encourage and support families to take responsibility by making their own arrangements for child maintenance wherever possible. The State's involvement through the statutory child maintenance system can then be focussed on families who are not able to come to their own arrangement.* (Child Support Agency web site <http://www.csa.gov.uk/>)

## New Zealand reform proposals

The New Zealand Government's discussion document outlines a series of primary options for updating child support legislation in New Zealand. These options focus on three facets – the child support formula, improving payment compliance and reducing debt.

A formula based on the cost of the child is recommended as more equitable for both custodial and liable parents as supported by the Families Commission (2009). However, when it comes to calculating the actual cost of children the opportunity costs of mother's caregiving are ignored as discussed below.

Formula revisions are divided in the document into three degrees of change. The most comprehensive of these revisions recognises lower levels of shared care using tiered thresholds, takes into account the income of both parents and more accurately calculates the cost of children. This cost calculation

is based on the number of children, their age (costs being higher for children over 12 years), and parents' combined income (understanding that with income rises, expenditure rises in absolute but not relative terms).

Payment avoidance has been a considerable concern with rates of compliance being particularly low among liable parents whose money is retained to offset custodial parents' benefits. Penalties for non-payment have not been incentive enough to increase compliance and have instead resulted in accumulating debt. The document's solutions include compulsory deduction of child support payments from wages, giving Inland Revenue the ability to place greater reliance on terms of parenting orders, capping penalties, and, instead, increasing non-financial enforcement measures.

### Child-centred approach to Child Support

The major deficiency in the current proposals is that they merely tweak the formulae when something much more comprehensive is needed. In particular they fail to consider how children's lives may be enhanced.

Child Support reform must put the child's well-being at the centre, not the financial needs of the Crown, nor of just the liable parent. The comments here reflect CPAG's concern first for children and in particular for children living in low-income families either because they are supported by a sole parent on a benefit or by a low income sole parent who is receiving Child Support directly because they work 20 or more hours a week and have exited the benefit system.

### **Inclusion of opportunity costs**

CPAG suggests that the needs of very young children require a very different time component from the primary caregiver. Work of any substantial nature by the mother is often precluded. The needs of the child, including when sick and unable to attend early childhood education centres, can make employment of sole parents of young children unattractive to employers. This is a particular issue for sole parents who do not have high income earning potential, or have young or sick children, or children with special needs.

Currently the 'costs of the child approach' takes no account of the opportunity costs of the mother's caregiving. An analysis released by the IRD (Claus, Leggett, & Wang, 2009) simply ruled them out on the basis of not being a cash cost. Although the significant cost of childcare is recognised, the inclusion of childcare in costings was also rejected because variation in workforce participation complicates the calculation.

In the child's early years opportunity costs should be included in the Child Support calculation. These costs are independent of the on-going costs of the child, e.g. food, housing, healthcare, nappies, beds, cots, toys, high chairs, transport, and is additional to those costs. Couples who are living together and have young children typically deal with these opportunity costs – there is less money for both parents and their children because one parent (usually the mother) stays home to care for the child. It is logical that the same approach should apply to separated parents.

The inclusion of these opportunity costs requires quantification. One approach might be to cost the care at the minimum wage. Currently if a custodial parent looks after the child herself she is donating unpaid time to their joint parenting obligations. An alternative approach would be to base the estimate on the cost of good quality full-time day care. At present full-time quality care for under two year olds can cost anything up to \$450 per week.

Ultimately the extent to which opportunity costs need to be built into the Child Support formula, and therefore apportioned between custodial and non-custodial parents, depends on the level of Government overall support for parents through childcare provision, benefits, and tax credits. The key point however is that the Child Support formula needs to recognise the income forgone that is often associated with being the custodial parent. In Australia, the Family Tax Credit B (see Chapter 5) is paid to all sole parents without an income test, and if the parent is not working it can be taken with them in full into a partnership providing the new partner's income is less than A\$150,000. This recognises the costs of care and is a much more equitable way of effectively providing a degree of income-splitting than the proposals currently before the House from the Hon. Peter Dunne (see Chapter 8).

### **Child Poverty Objective**

A child-centred Child Support scheme should seek specifically to reduce child poverty. The incorporation in the formula of an allowance for the opportunity costs in respect of young children, as discussed above, is one important part of doing so.

A second and critical element is to include pass-on, so that custodial parents on a sole parent benefit receive at least part of the Child Support paid by the other parent. Fletcher and Dwyer (2008) report that, in 2006, Child Support payments were not passed on in respect of 150,350 children (55% of all Child Support children and involving 90,000 custodial parents) because of the custodial parent's benefit status. They also cite an Australian Senate paper that reported that the effect of passing on Child Support and treating it like any other income for benefit abatement purposes would lift an estimated 60,000 Australian children above the poverty line (Senate Community Affairs Reference Committee, 2004).

### **Simplification objective**

Child Support reform must aim to simplify agreements between parents, and arrangements with the IRD and Work & Income rather than complicate them and cause stress and anxiety. The shared care rules should be aligned with Working for Families and for Child Support. However there is also a good case for not apportioning Working for Families tax credits in most cases. Any change to the formula for Child Support needs to take account of Working for Families. At present, the two types of shared care adjustment complicate the picture of the financial share that each parent is in fact contributing.

### **Conclusions**

Research undertaken in New Zealand by the Families Commission, and in Australia, shows that separating couples who are able to cooperate on parenting and put their children's needs first, are more satisfied with their care and financial arrangements than those who have arrangements imposed on them by the court or the Child Support system. Thus it is important to provide better information and support for separating couples (Families Commission, 2010b).

Child Support reform must be conducted in an environment that takes into account issues of the caregiver's opportunity costs, the way WFF tax credits operate, other government initiatives affecting social assistance and the role of early childhood education and school fees. Other family assistance measures, such as Paid Parental Leave and the Parental Tax Credit, need also to be considered.



A shift in focus from the needs of the Crown to the needs of custodial parents and their children is required. There should be legislative change in line with Australia and the UK ensuring custodial parents are always given at least part of their child support payment, even when receiving income support. CPAG supports the Families Commission (2009) which has suggested a parent who is the primary caregiver on a benefit should always be better off when child support is paid. Advance maintenance provisions should also be introduced so that custodial parents are not left out of pocket if IRD fails to collect payments. These changes would make a positive difference to the level of hardship faced by low income families.

## Recommendations

- Child Support reform must have the child's well-being at the centre, not the financial needs of the Crown, nor of just the non-custodial parent;
- Child Support reform must act to ameliorate child poverty for children in families supported by a benefit or low income;
- Part or all of Child Support should be paid directly to the parent on a benefit;
- Child Support reform must aim to simplify agreements between parents, and arrangements with the IRD and Work & Income rather than complicate them and cause stress and anxiety;
- Child Support reform must be conducted in a holistic environment that takes into account issues of the caregiver's opportunity costs, the way Working for Families tax credits operate, and other government initiatives affecting social assistance;
- More resources for post-separation parenting courses and financial counselling are needed to encourage voluntary arrangements outside of the Child Support scheme to gain the benefits from flexibility and co-operation.

# Chapter 9. Tax Reform and the macro economy: Heaven help the children

Susan St John<sup>59</sup> and Andrew Familton<sup>60</sup>

## Introduction

2011 is a grim year as the impact of a series of domestic disasters including the Christchurch earthquakes, finance company bailouts, and leaky homes costs, hit an already weak economy. New Zealand's international debt situation is ominous, making the country vulnerable to a rating downgrade, higher interest rates, a possible collapse in the currency, and higher inflation. As if that is not bad enough, there are world problems in food markets and higher prices for imported fuel. The 2011 budget deficit has blown out and the prospect of a drawn-out slump seems inevitable with a severe decline in many families' living standards.

Amidst these concerns the impact on children can be easily forgotten. The alarming persistence of child poverty in New Zealand in spite of the rapid growth in wealth and income inequality throughout the 'seven golden years of plenty' until 2008, was described in *Left Behind*. Now more than three years on, over and above the misery in Christchurch, hardship has got worse throughout New Zealand, with many more families needing the assistance of food banks, budgeting services and debt management.

Tax policy, as part of overall economic management, is a critical component for sharing the pain of hard times.<sup>61</sup> Since *Left Behind* was published in 2008, there have been several rounds of tax cuts and a rise in GST. By early 2011, the fruits of tax reform could be judged to have failed to materialise: tax revenue was down instead of up and the deficit was much larger than projected. The Government declined to reverse any of the tax cuts or implement a levy on higher incomes to pay for the recovery of Christchurch, and then delivered a tight Budget on in May 2011, signalling significant spending cuts.

This section describes how the tax system has been spectacularly unsuccessful in apportioning the tax burden equitably, and how current directions have widened New Zealand's wealth and income gaps. We note the difference in the way that Australia has responded to the global financial crisis and natural disasters, so that there is no inevitability for the New Zealand approach (Spies-Butcher, 2010). While the way tax is gathered is only one mechanism for achieving a fairer distribution of income, it is a very important one especially because the welfare and tax systems are so closely connected.

## Background

New Zealand's tax system does have some desirable features compared to the mid-1980s. Then, New Zealand had a highly distortionary, inequitable and complex system, including a mishmash of different sales tax rates, and a top tax rate of 66% that was widely avoided. There were numerous gaps in the tax base, so that a lot of income escaped tax. Fringe benefits to employees and capital gains from the sale of assets were two examples.

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61 Thanks to Michael Littlewood for his helpful criticisms and contributions to this Chapter.

The tax reforms of the mid to late 1980s were designed to help restore a measure of fairness and simplicity and to 'level the playing field' instead of rewarding activities that were under-taxed or not taxed at all (St John, 2007). As a result of these changes, the New Zealand tax system is often held up to be one of most efficient (OECD, 2007b). At the same time the OECD noted that New Zealand continues to fail to tax capital gains.

By 2010 a number of ad hoc changes meant we were a long way from the simple, comprehensive income tax supplemented by a low rate broad-based GST envisaged in the 1980s. Among key issues, KiwiSaver and PIEs introduced savings incentives while investment in housing remained very tax-advantaged and a major mechanism through which the better-off increased their wealth, contributing to increasing inequality. Following the Tax Working Group's report, the 2010 budget increased GST and reduced the tax on income and saving. This was followed by the report of the Savings Working Group and the changes in the Budget in May 2011.

### Tax Working Group

The Government-appointed Tax Working Group (TWG) (2010) outlined how New Zealand had lost the edge as an international leader in tax policy, describing the tax system as falling short on the criteria of equity, efficiency and administrative simplicity. Many high income people had been avoiding their fair share of tax by the use of companies, trusts, loss-making properties, and tax-paid managed funds. Some apparently qualified for Working for Families tax credits as a result of generating rental losses or hiding income in tax-paid funds.

The TWG was convinced that aligning the company, trustee, and top tax rates, at perhaps 30% or lower, was the direction reform should take. The price of levelling down the rates however would be a less progressive tax system. The implicit value judgment was that the criterion of efficiency was more important than that of equity because lower tax rates are supposed to distort economic decisions less. While they modelled the impact of different scenarios of tax cuts and base-broadening on child poverty and inequality, their concern was limited to ensuring that these did not get noticeably worse. The questions ignored were "is the current level of inequality and poverty acceptable? If not, how can taxes be redesigned to improve equality and reduce poverty?" The TWG either implicitly accepted that the prevailing distribution was optimal, or that distributional aims were best achieved by other tools outside of the tax system.

Another limitation of the TWG's exercise was the requirement for the suggested reforms to be 'revenue neutral'. The revenue from tax cuts had to be found from base-broadening or another source such as GST. But raising GST and lowering tax rates leaves little leverage to halt the rise in debt in a protracted downturn such as we see in 2011. Unwilling to reverse tax cuts and realising that further rises to GST would be politically very damaging there is little room to move except either to make unpalatable spending cuts, or to compound the debt problem by further borrowing.

While the TWG may have considered that distributional aims were best targeted outside of the tax system and that distortions of the tax/welfare interface were identified as a concern, this line of analysis was denied to them in their mandate. Although a family on an income over \$48,000 might face an effective marginal tax rate of over 50% due to Working for Families (WFF), the more serious problems faced by those on benefits whose effective marginal tax rates may exceed 90% was ignored. These are serious negative incentives to work for these individuals and families.

Claiming that such 'welfare' transfers were outside its brief, the TWG nevertheless had to take WFF into account as it is the key way taxes are adjusted for family size. But this complex package, (discussed in Chapter 6), was not examined in detail at all by the TWG, that did not ask even the obvious questions as to whether the various tax credits in WFF achieved their original purpose. Further scope for policy improvement was ignored.

Because the TWG did not analyse the design of tax credits, its suggested changes to reduce effective marginal tax rates were problematic. For example, one scenario modelled universalising the last \$2,000 a child of WFF Tax Credits. At a further cost of \$700 million annually, this would, in practice, pay the In Work Tax Credit (because it abates last), to the very wealthiest families. It is clear that these families don't need a payment to 'make work pay' or 'address child poverty'. Remarkably, as modelled, this extra \$700 million expenditure would not increase family payments at all at the lower end where they are so desperately needed.

### Tax changes 2010 budget

The key 2010 tax reform was the shift from income tax to more reliance on GST. The basis of this was a faith that the shift must be good for incentives to work, save and invest:

*Lower personal tax rates encourage individuals to work, invest and save, increasing wealth and productivity. (Dunne, 2011a)*

The main argument for the tax shift used by the TWG and later by the Government-appointed Savings Working Group (SWG) was that a shift to a higher GST would encourage saving. In addition, tax concessions would incentivise saving. At the same time, and confusingly, the tax shift was supposed to encourage economic growth. The government repeatedly claimed that the tax reforms of the 2010 budget were highly significant. See, for example, an address by the Minister of Revenue:

*Last year's Budget measures were the most significant tax reform in New Zealand for over twenty years, shifting the weight of taxation from income to consumption. That Budget contained substantive tax measures to improve the incentives for efficient savings while maintaining the integrity of the tax system. (Dunne, 2011a)*

The reality is that the expected outcomes have not materialised. The Government gave large tax cuts to the top income earners, and gave very little to those at the bottom. The rich enhanced their wealth and repaid debt, while, as most middle and low income people tried to save more, the local economy became further depressed. The surplus income that tax cuts give the rich help build up large and unsustainable imbalances of wealth and power alongside increased debt for the poor.

The government claimed that greater integrity and fairness was promoted by aligning the trust rate and top tax rate, to reduce the tax advantage from sheltering income. Unfortunately it saw this only in terms of aligning down to the lowest possible rate, rewarding the former tax avoiders. The top tax rate was reduced from 38% to 33%, closer to the new company rate of 28% but still creating a 5 percentage point gap which in turn means a high incentive remains to avoid the top tax rate. The Government obscured this by claiming higher returns to KiwiSaver and other long-term savings, increased investment, international competitiveness and stronger GDP growth:

*With more capital goods, labour is more productive so this encourages productivity and growth. (Dunne, 2011a)*

The tax reforms were sold to the public as both fiscally neutral and distributionally neutral, but they are clearly neither. The government was relying on a high growth rate to assert that by 2012 the tax reductions would be balanced by tax gains. Even so the reform was still expected to cost \$1 billion over the four years to 2013/14 (Minister of Finance, 2011, p. 70).

The income and tax paid for year ended March 2011 were presented in a misleading way as Table 9.1 from the 2010 budget illustrates:

<b>Table 9.1. Who pays income tax and how much</b>				
(Source 2010 Budget: Keyfacts for taxpayers <a href="http://www.treasury.govt.nz/budget/2010/taxpayers/02.htm">http://www.treasury.govt.nz/budget/2010/taxpayers/02.htm</a> )				
Annual individual taxable income (\$)	Number of people		Tax paid	
	(000)	%	(\$m)	%
Zero	236	7	0	0
1-10,000	446	13	237	1
10,000-20,000	834	25	1,576	7
20,000-30,000	416	12	1,507	6
30,000-40,000	349	10	1,965	8
40,000-50,000	304	9	2,306	10
50,000-60,000	244	7	2,506	10
60,000-70,000	168	5	2,267	9
70,000-80,000	113	3	1,885	8
80,000-90,000	67	2	1,367	6
90,000-100,000	56	2	1,332	6
100,000-150,000	89	3	2,961	12
150,000+	52	2	3,963	17
All	3374	100	23,872	100

\* This table includes tax on NZ Superannuation and major Social Welfare benefits, but excludes ACC levies, Working for Families and independent earner tax credits and anyone under 15. Data are projected for the year ended March 2011 and include the 1 October 2010 tax changes.

Data are projected for the year ended March 2011 but the figures show only 6 months of the GST/income tax shift, and are presented in a way that is designed to show that higher income groups pay a disproportionate share of tax rather than that they earn a disproportionate share of the income.

While taking the most optimistic view of positive impacts of the tax reforms to justify fiscal neutrality, the government adopted contrary assumptions to justify the distributional neutrality of the 2010 Budget. It was argued that higher income groups, who received the most from the income tax changes, paid more GST and lost some advantages in the taxation of their residential investment properties. Yet these calculations were based on dubious assumptions, such as assuming all households spend 91% of their disposable income on GST-rated goods. Table 9.2 shows the impact of a whole year of the tax shift. The table shows the very small gains at the bottom end, and disguises the large gains that the top end by taking the income range only to \$120,000 and by assuming that almost all of even these top incomes is spent on GST-rated goods.

<b>Table 9.2 Gains from the October 2010 tax shift</b>				
(Source 2010 Budget: Keyfacts for taxpayers <a href="http://www.treasury.govt.nz/budget/2010/taxpayers/02.htm">http://www.treasury.govt.nz/budget/2010/taxpayers/02.htm</a> )				
Annual individual taxable income	Annual decrease in income tax	Annual increase in GST	Net annual after-tax income change	Net weekly after-tax income change
(\$)	(\$)	(\$)	(\$)	(\$)
5,000	100	88.38	11.63	0.22
10,000	200	176.75	23.25	0.45
15,000	315	263.41	51.59	0.99
20,000	490	343.2	146.8	2.82
25,000	665	433.49	231.51	4.45
30,000	840	513.28	326.72	6.28
40,000	1,190.00	672.86	517.14	9.94
50,000	1,530.00	817.09	712.91	13.71
60,000	1,830.00	952.43	877.57	16.88
70,000	2,130.00	1,087.77	1,042.23	20.04
80,000	2,630.00	1,213.01	1,416.99	27.25
90,000	3,130.00	1,338.25	1,791.75	34.46
100,000	3,630.00	1,463.49	2,166.51	41.66
110,000	4,130.00	1,588.73	2,541.27	48.87
120,000	4,630.00	1,713.97	2,916.03	56.08

The example given by the government to show that the tax shift was neutral was the exceptional case of a high income earner who owned 10 rental properties. Someone on \$20,000, received a tax reduction of \$490, but paid extra GST of \$343 almost cancelling out the gain, while someone on \$120,000 gained \$4,630 in tax reductions, and even if they spent all their income, paid only \$1,713 in extra GST. In addition, high income people gained from a lower PIE rate, and a lower company rate from April 2011.

If high-income people spend all of the increased net income on GST-rated goods, then saving does not increase to the extent needed for the government's saving argument. If they do not then the stimulus from the package does not meet the requirements for managing the seriousness of the recession.

One of the very clear deficiencies of the 2010 budget response to the TWG was in the treatment of capital gains (Huang & Elliffe, 2011). While the government chose to quote selectively the reluctance of former task forces to recommend such a tax, it failed to see that such taskforces such as the 2001 McLeod Review did not say it should be ignored. For example the McLeod Review strongly suggested the risk free rate method (RFRM) for the taxation of property. Likewise the TWG did not say the issue can be ignored and proposed a land tax or the RFRM. The 2010 budget did make some modest changes to the taxation of property but failed to grasp the scale of the needed changes that the TWG had signalled.

The government claimed that the 2010 Budget measures also ‘significantly improved the integrity and fairness of the tax system’ by removing the tax advantage that could be gained by sheltering income in trusts. But instead of taxing trust income appropriately, the problem was ‘solved’ by rewarding the former tax avoiders with lower tax by making the top tax rate for individuals the same as the trust tax rate. The TWG’s goal of alignment has been used to support the government’s aim of reducing income tax rates for high income earners. Moreover, the incentive to shelter income in companies has been maintained in the aim of improving efficiency but sacrifices integrity, fairness and alignment in the process.

The Savings Working Group and the 2011 budget

Following the TWG, the SWG outlined the savings imbalances that affect New Zealand and in many ways follow the same logic.

The SWG’s report focussed on concerns about New Zealand’s high level of indebtedness and vulnerability to financial shocks. One of the strong recommendations was for a 5 or 10 percentage point reduction on marginal tax rates for all investors in PIEs, and to interest and dividends more generally. A second was to introduce auto-enrolment of all employees into KiwiSaver, reducing the starting age to 16 and increasing the default contribution rate. A third theme was to encourage the government to improve its own balance sheet by a return to operating surpluses.

**Busting the myths of a capital gains tax**

Capital gains tax has been the elephant in the room over 40 years of discussion about tax reform in this country. But we have a mountain of debt to move, and an elephant could be a useful way to help move it.

South Africa’s experience shows assumptions about a capital gains tax being unworkable are largely hyperbole. *(Chye-Ching Huang and Craig Elliffe, NZ Herald 12 January 2011)*

One of the very under-debated issues in the tax reform process of which the TWG and the SWG are an integral feature is encapsulated in this statement:

*The right balance between labour and capital taxation is probably the key tax policy issue that governments face (Dunne, 2011a).*

Table 9.3 sets out the tax rate changes for 2010 and 2011. These were not changed by the 2011 Budget.

<b>Table 9.3. Tax rate changes 2010-2011</b>			
<b>Income</b>	<b>1 April 2010</b>	<b>1 October 2010</b>	<b>1 April 2011</b>
\$0-\$14,000	12.5%	10.5%	10.5%
\$14,001-\$48,000	21%	17.5%	17.5%
\$48,001-\$70,000	33%	30%	30%
\$70,000 and over	38%	33%	33%
GST	12.5%	15%	15%
Company tax rate	30%	30%	28%
Top PIE	33%	28%	28%

The savings debate

The benchmark model that New Zealand used to have was that of including all income in the personal income tax base taxed at a relatively low rate. In theory, in this approach there should be no



distinction between income from work, bonuses, capital gains, interest, dividends and employment-related perquisites. This approach has now been abandoned in favour of believing that the returns to capital should be treated less punitively than the returns to labour income to encourage investment and saving. Repeatedly, as in the work of the TWG, the SWG asserted that a lower tax on the returns to capital is justified.

But why should the returns to saving be treated more favourably than the returns from working? The theoretical argument for a pure GST increase and corresponding income tax reduction causing an increase in saving is thin. The presumption has been that there is a close connection between saving and productive investment and that the former causes the latter.

This is bad economics. It ignores the reality of the huge speculative and unproductive unearned income gains from capital that have been possible. It also ignores the disconnect between saving (done by individuals) and productive investment (usually carried out by firms for reasons quite different to those that may lead to increased saving).

If I save by putting my money into a finance company and that pays me a higher interest rate than a bank deposit, does that make me a good saver? What is the judgement when the finance company lends my money to a developer for the development of an inflated-priced property that proves to be a foolish and worthless venture? If my 'saving' is borrowed for the purchase of a second hand car in South Auckland at a high interest rate, what is the productive aspect of this income that suggests it should be taxed at a lower rate than my earned income?

Consider next that money on term deposit at the bank is likely to be lent to younger families through mortgages. During hard times such as in 2011, mortgage defaults are common, and many families suffer poverty when job losses put them behind in repayments. The depositor's return is however protected and taxed at a lower rate than the income of the struggling family. Better-off baby-boomers with plenty of property are paid NZS in addition to other income so do they really need a lower tax rate when they lend their excess to the poor? It is ironic that in times past, unearned income was treated less generously than earned (see insert), now it is treated more generously.

The concept of "saving" is complex. Annual **saving** is the difference between income and consumption. Saving occurs when people pay off some of their mortgages, just as it does when money is building up in an investment or bank account or in a share portfolio.

One argument is that part of the return to capital (for example, interest) is a reflection that inflation erodes the capital. Thus taxing interest at a marginal tax rate lower than that of the saver is supposed to provide compensation. But we do not allow for any costs to be deducted against labour income to allow for depreciation of human capital, so why should we allow a deduction for the portion of the return to capital that reflects the depreciation of the capital due to inflation? The boundary problems provide another reason to want retain a system that treats income from all sources the same. And surely in New Zealand before we start talking about treating capital more favourably, we must include all forms of capital income including all capital gains that are currently untaxed.

Likewise, the insistence that New Zealand must have a lower company tax rate to keep business in New Zealand is based on a pure model of economic behaviour. The TWG said that if New Zealand had a higher company tax rate than other countries then thin capitalisation (using borrowed money instead of equity and deducting the interest as a cost in the high tax country) and transfer pricing would see companies transfer taxable profits elsewhere. It also believed that company tax was a

tax on labour. But, others have challenged this presumption arguing it is in large part borne by owners of capital and a lower company tax rate implies a higher tax will be needed on labour to raise the required revenue. Moreover while capital may be mobile, in New Zealand we have to worry also about labour leaving our shores. A low company tax rate may have unintended consequences, for example, it appears to have contributed to Ireland's economic collapse by encouraging tax haven activity (O'Toole, 2009).

More profoundly, society has ambivalent and contradictory attitudes to debt and savings issues. Saving and lending is portrayed as 'good' and debt and borrowing as 'bad', yet you cannot have one without the other. At the global level as some countries have run ever higher current account deficits, other countries have run correspondingly increasing surpluses. One necessarily implies the other.

The effect of this has been for surplus countries such as Japan and China to accumulate ever more assets held abroad while debtor countries like the USA and New Zealand accumulate ever more net foreign financial liabilities. Globally these imbalances have become extremely unhealthy (Bollard, 2010, p. 8).<sup>62</sup>

Domestically, as those at the top end of the distribution have appropriated more and more of the current national income, both through large pay rises, capital gains and tax cuts, they have had more ability to save. Whether or not that means banks borrow less from offshore, this tends to go hand in hand with others increasing their capacity to borrow, and their impoverishment ensures that they will need to do so. Thus the poor in South Auckland have borrowed large amounts through finance companies and loan sharks from those with surplus saving who 'invest' in the same companies.

Tax cuts that cause ever larger deficits, which in turn require more borrowing and more public debt, are very regressive: the extra disposable income of high income people lent back to the Government implies an increase in taxes on everyone to pay for the guaranteed interest return, and ensures that that interest rates will be higher than would be the case if revenue had been raised through higher taxation.

To compound matters, in 2011, the Government is faced with the financing of a major rebuild of Christchurch but is refusing to reverse any aspect of the 2010 tax cuts, even temporarily. It will therefore be borrowing by issuing New Zealand denominated debt, partly purchased by overseas lenders and partially purchased by New Zealanders. In contrast to the rich paying higher taxes, this is very regressive and adds further to the costs of servicing a growing debt; costs met by everyone.

### Taxing unearned income

From 1921 onwards a distinction was drawn between earned and unearned income so that the latter category attracted more tax. In the early years this was achieved by a percentage reduction of the tax on earned income up to £2,000 but later on it was superseded by a percentage addition to the tax on unearned income. This distinction between earned and unearned income was not abolished until 1950. (Taxation Review Committee, 1967, p. 58)



To reinforce this approach the Government is offering Earthquake Kiwi Bonds at 4% per annum for 4 years to New Zealand residents. They are like the other Kiwi Bonds, however the money invested

62 There is high-level debate about the importance of these imbalances. See <http://www.bis.org/publ/work346.pdf>.

in these is said to go towards meeting the costs to the Government of the recovery in Christchurch. The new bonds may have a feel good factor for those looking for a safe, guaranteed return, but there is no inherent reason why the money should be ring-fenced for Christchurch.

In contrast, to pay for the Queensland floods, the Australian government introduced a temporary levy that applies only to those earning over \$50,000, and primarily to those earning over \$100,000. This reflects the earlier difference in economic management of the impact of the global financial crisis. In New Zealand, the focus was on tax cuts. In Australia, focus was on spending, particularly for families with children and on the construction sector. This stimulus effect in Australia seems to have been not only very effective in combating the recession and maintaining confidence but also more equitable. The tax changes in New Zealand gave the largest gains to those on high incomes. In Australia, the spending was targeted at everyone except top earners: families earning under \$100,000 received \$950 for each child, aged pensioners received \$1,400, and all income tax payers earning less than \$80,000 received \$900. After that initial one-off stimulus that was effective in keeping confidence high, it was much easier to move back towards surplus (Spies-Butcher, 2010). In contrast, New Zealand made the tax cuts permanent, and is facing severe problems in returning to balance or surplus.

In the blinkered mindset of the New Zealand government the only possible responses are now asset sales and spending cuts. The targets are Working for Families, KiwiSaver, Student loans, the public sector and social programmes.

#### KiwiSaver and pensions

In *Left Behind* (2008), it was argued that the subsidies in KiwiSaver were regressive. In the meantime it has been older people who have reaped the main benefit from the subsidies. Policies have consistently advantaged the baby-boom generation, especially those who are retiring with assets and private saving. Some of these subsidies were reduced or removed in the 2011 Budget. While the subsidies were not the best way to help low income people, the removal of the subsidies in the 2011 budget does not result in policies that redistribute more fairly to all low paid people.

Although universal provision for children has been ruled out, New Zealand maintains a universal pension which, for high income pensioners of 65 and over, is taxed at a maximum of 33%. A low, flat-tax structure does not sit well with universal provision and there is strong case for a higher tax scale for those who are accessing New Zealand Superannuation (St John, 2009).

#### Income splitting

Income splitting was proposed in 2008 by the Minister of Revenue, the Hon Peter Dunne, as discussed in *Left Behind* (2008). Under the proposal, single-income families would treat their joint income as if it had been earned equally between the two partners, and thus pay less tax in total.

In 2010, the Income Sharing bill passed its first reading in parliament and awaits its second reading in 2011. Peter Dunne claims there is "overwhelming public support for this policy" which he justifies as "vital in a liberal democracy like ours to allow people the opportunity to decide as many things as they can for themselves":

*...couples with children [can] combine their income and split it down the middle for tax purposes, giving them more flexibility and the opportunity to spend more time raising their children... The gains would go to 310,000 families with children – that is about two thirds of all*

*families and around three quarters of all children – a boost in their household incomes of up to \$9,000 a year. (Dunne, 2011b).*

While the stated policy aims of recognising the costs involved in raising children and assisting single income families (and/or making it easier for one parent to remain at home) are worthwhile, this policy would do nothing to alleviate child poverty and nothing for sole parent and low income two earner families while advantaging the highest income groups the most. As CPAG (2010) argued:

- *Income splitting should not be a priority for scarce resources.*
- *The splitting proposal is not actual income splitting and it reinforces stereotypes that do not help women.*
- *Income splitting is not a recognition of the worth of the stay at home parent.*
- *The problem has been mis-specified as to the inequity between the single earner and dual earner households on the same income.*
- *Current arrangements provide an incentive for sharing of work and care.*
- *Working for Families is the mechanism for transferring taxes paid by workers to caregivers. Income splitting provides perverse incentives to claim partnership.*
- *Income splitting is optional. Whose option will this be: his or hers?*

The problem with the Goods and Services Tax

Historically New Zealand's share of tax revenue from GST has been average for OECD countries (OECD, 2007b).

New Zealand's GST captures everything except housing, rents and financial transactions, all of which can be ignored for our purposes. This universal application brings numerous administrative benefits for both IRD and businesses processing GST returns. Also, organisations do not waste time trying to squeeze their service or product into a GST-exempt category to gain a competitive price advantage. The broad coverage of GST also implies that it is an economically efficient tax relative to other countries' consumption taxes. Indeed it allows the New Zealand government to collect a relatively large proportion of its tax revenue from GST levied at a comparatively low rate. In 2009, when GST was at 12.5%, GST revenue accounted for 21% of the government's tax revenue (The New Zealand Treasury, 2009) despite being levied at a rate of only 12.5%, the sixth lowest rate in the OECD (White, 2009).

Other countries with GST-like taxes attempt to deal with their regressive nature by exempting items such as food, clothing and books. New Zealand has no such exemptions and has avoided the pitfalls of trying to compensate low income groups with these clumsy tools. But are we in danger of killing the golden goose?

The TWG and the SWG were very enthusiastic about GST and appeared to believe that because it is so good we should have more of it. The 2010 budget raised GST from 1st October 2010 to 15% and the SWG wanted it raised even more. Unfortunately, the higher the rate of GST, the more the pressure for exemptions, and the greater the likelihood that New Zealand will end up with the problems other countries have.

Early in 2010, the Māori Party's Rahui Katene put forward a private member's bill that exempts 'healthy' food from GST, and in September 2010, Labour announced that it will remove GST from fresh fruit and vegetables if it wins the next election.<sup>63</sup>

New Zealand is one of the few countries in the developed world that does not make some GST exemptions for food. But exempting fresh fruit and vegetables will lead to either a short-fall in the government's revenue, or an increase in the rate of GST, or other taxes, to balance the revenue loss. Labour estimated a fiscal cost of exempting fruit and vegetables from GST at around \$250m (Goff, 2010). The TWG previously estimated that exempting all non-takeaway food would cost approximately 15% of the revenue of GST (The New Zealand Treasury & Inland Revenue Department, 2009). Unfortunately this policy is not well-targeted as higher income families would gain the most as they spend more on this category of food. Would there be a further increase in GST on all other goods and services to cover the cost? Or would there be a compensating increase in income tax rates? Both increases could have implications for the fairness of the tax system, and these implications should not be ignored.

In the meantime, the 15% GST is taking a cruel bite out of family incomes in the recession. Low income families do not benefit much from falls in prices due to the higher exchange rate and are disproportionately affected.<sup>64</sup> The answer is not to exempt items but to make sure benefits, wages, tax credits, thresholds for abatement, and all other social provisions, are generously compensated. The changes for Working for Families, for example, as discussed in Chapter 6, are clearly going in the wrong direction.

#### Tax in Australia and New Zealand compared

We talk about catching up with Australia but we seldom hear talk about the difference in the tax systems. Australia has a much more progressive income tax rate structure with an effective \$16,000 tax free threshold once the low income earner rebate has been included, and a top tax rate of 45% on incomes over \$180,000. In the meantime GST in Australia has remained at 10%. The levy for Medicare of 1.5% is offset by an exemption for low income earners.

Low income earners retain much more in the hand for each extra dollar earned after tax and GST. If each dollar earned up to A\$16,000 is spent, the total tax component including GST is 9%, leaving 91 cents of real goods and services.

In New Zealand for each dollar earned up to NZ\$14,000, the tax component including GST and Accident Compensation levy (2.04%) is 24%, leaving only 76 cents of real goods and services.

So not only do low income people have higher gross incomes because their wages (and the minimum wage) are higher in Australia, they are also able to benefit more in 'after tax terms'. And of course in 2011 the New Zealand dollar is only worth only about 75% of the Australian dollar.

#### Urgent unresolved tax issues in 2011

The definition of income for social provisions such as Working for Families, student allowances and early childhood care, has been significantly broadened to limit claims by the better-off. The definition now includes trustee income, attributable fringe benefits, passive income of children, 'unlocked PIE

<sup>63</sup> The aim of simplifying the category of 'healthy' food via the label 'fresh' has resulted in Labour ignoring the high nutritional content and low cost of frozen fruit and vegetables.

<sup>64</sup> Low income families do not often enjoy overseas travel, or export goods and services.

income' and so-called 'periodic payments'. While counting all income is justified, regular gifts of money from other family members may also be caught.

Thus while gift duty has been abolished for the better-off, regular transfers to struggling low income families over \$5,000 pa are penalised. Birthday gifts are exempt, but, for example, payments made for day-care by a grandparent may be captured by 'family scheme income'. A family transfer of \$5,001 means \$1,000 loss of WFF tax credits. Most low income 'working families' do not hide money in PIEs and trusts, and yet they may be caught under these arbitrary rules. If a grandparent looks after the grandchild themselves, the noncash contribution is not counted even though the overall value of the help is the same. Yet it may be argued that grandparents who can afford it should be encouraged to help their children with monetary transfers. In the recession, without such help, many more low income families will resort to increased borrowing and food-banks.

If it is fair that incomes of families who claim WFF include all income from all sources, then it is fair that all income is aggregated and taxed at the appropriate rate of the earner. It is still easy to 'hide' or segregate income into vehicles that are effectively 'final taxpayers', such as companies, trusts, superannuation schemes and 'portfolio investment entities' (PIEs). That will be made even easier on 1 October 2011 when gift duty is removed. Wealthy retired people can structure their incomes to pay a top rate of only 28% or even less with a clever tax advisor (Retirement Policy and Research Centre, 2009).

Another side effect of encouraging tax-paid funds is that it is not possible to tell a person's actual income. Consequently figures on income distribution based on taxable personal income understate income, especially at the top of the distribution.

New Zealand has a relatively flat personal income tax regime compared with many other countries and a high proportion of tax is collected via the broad-based consumption tax (GST), which reinforces the burden of tax on the poor. High-income earners are also advantaged as capital gains remain largely untaxed. The use of family trusts and superannuation schemes to minimise tax and child support liabilities and maximise WFF and student allowances for high-income earners have been curtailed, but there are still no inheritance or wealth taxes, or stamp duties on housing sales.

In 2001 the first major review of taxes for 30 years recommended that New Zealand adopt a "Risk free rate method" (RFRM) of taxing housing instead of a capital gains tax. The merits of this were unfortunately never debated (The Treasury, 2001). The 2010 Tax Working Group also raised the prospect of RFRM, but the government did not adopt any major reform of the tax treatment of housing following their report.

This distortion in the tax system continues to threaten long-term economic stability. New Zealand's worrying net international liability has arisen largely as a result of the banking sector borrowing from overseas to feed the housing asset bubble. In the housing boom prior to 2008, equity withdrawal from the housing market fuelled consumer spending. The excessive investment in housing does not increase the productive capacity of New Zealand and hence does not increase our ability to repay the overseas loans.

**The 2001 Tax Review** recommended the Risk Free Rate Method (RFRM), where individuals are taxed on their net equity in housing as if they had invested this money in a deposit at a risk-free rate of, say, 4%. Complex accounting for rents, costs, profits and losses would not be needed as this would be the only tax. A limited exemption could apply to owner-occupied homes. (The Treasury, 2001, p. 32)



While depreciation expenses are not now deductible in most cases, housing investment losses can still be written off against other income, and nominal interest on loans for such investment is still fully deductible. In many other OECD countries, such losses are ring-fenced, and there are special capital gains taxes.

Progressive income tax regimes are increasingly out of favour in New Zealand and believed to punish hard work and initiative. What is usually left out of the discussion is the fact that, as is the case in New Zealand, flat tax regimes are regressive, and are a major contributor to income and wealth inequality. The rationale for broad-based flat tax regimes: that they encourage investment and hence improve economic growth, is far from borne out empirically.

For low and middle-income families in paid employment, the WFF package changed things for the better. For these families at least, the tax credits available to them make New Zealand's tax structure considerably more progressive. However these are under threat from attrition policies in the 2011 budget.

### Recommendations

- Review the economic management of the past four years that has relied on tax cuts to stimulate the economy, borrowing to fund disaster relief and spending cuts to restrain the budget deficit. Learn the lessons from Australia;
- Return GST to 10% as in Australia and complement it with progressive taxation. If there is no appetite for that, then far more generous compensation of lower income groups is required via higher benefits and more generous tax credits;
- Aggregate all income for tax purposes under a comprehensive income tax approach;
- Tax all investments at the appropriate marginal tax rate of the investor and eliminate special treatments;
- Reform the tax treatment of rental housing and home-ownership investment to remove regressive advantages with either a Risk Free Rate Method or Capital Gains Tax;
- Abandon income splitting as a policy under the Income Sharing Bill.



# PART THREE

## Chapter 10. Poverty and violence, and children

Mike O'Brien<sup>65</sup>

### Introduction

While most of the discussion in New Zealand about abuse and neglect has focused on the behaviour of individual carers, a more useful discussion and analysis would consider the significance of economic, income and poverty factors. Two fundamental points about the relationship between poverty and child abuse and neglect need to be made as a backdrop to the wider discussion:

(1) child abuse is not limited to those on a low income and those living in poverty;

(2) most children living in poverty and in low-income households do not experience abuse.

These arguments are repeated frequently in the research on child abuse, child maltreatment and neglect and poverty. They are critical observations because of the assumptions that are sometimes made about parents living below the poverty line. Equally importantly, as the discussion in this chapter demonstrates, there is an observed relationship between poverty and abuse and violence, a relationship that has disastrous consequences for some of the most vulnerable children in our society. The two statements at the start of this paragraph can easily lead to arguing that poverty therefore does not matter in relation to issues of abuse and violence. Such an argument would be a major distortion of what we know about abuse and poverty. It would mean that the connection between the two, identified in the international research, is conveniently ignored, with critical consequences for children and their families.

The international evidence makes it very clear that there is an important relationship between poverty and child abuse, however, the nature of that relationship is not clear. The National Society for the Prevention of Cruelty to Children (NSPCC) observes in its review of the evidence from the United Kingdom about child abuse and poverty (2008, p.8): “child maltreatment is clearly a complex and multi-dimensional problem”.

The research is clear about the link; what is not so clear is how that link works and the ways in which poverty is associated with a range of other critical considerations such as poor housing, unemployment, mental health difficulties, the effects of disadvantaged neighbourhoods and social exclusion, in impacting on child abuse and neglect. Unravelling the different, overlapping effects of the many variables is difficult. Irrespective of these difficulties, the significance of poverty cannot be ignored. It follows that reducing poverty and improving the lives of families and children living below the poverty line will have an effect on children's experiences of abuse, violence and neglect.

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## Definition

In her work on poverty and child abuse, Quilgars (2001, p.65) sets out the following definition of child abuse, drawing on a National Commission of Inquiry in the United Kingdom:

*child abuse consists of anything which individuals, institutions, or processes do or fail to do which directly or indirectly harms children or damages their prospects for safe and healthy development into adulthood.*

This is a wide definition and opens up the question of both direct physical, sexual and emotional abuse of children and, importantly for our purposes, wider questions about the role of society and social institutions in failing to provide adequately for children and their development. In the context, then, of the wider focus which Quilgars' (2001) definition indicates, poverty, arising from whatever cause, in itself constitutes a form of abuse in that it represents a failure to ensure that children are given and provided with the resources and opportunities to develop fully.

This is a wider definition than that set out in the recent report from the OECD (2011, p. 247) where they take up Gilbert et al.'s definition:

*Child maltreatment includes acts of commission (abuse) and acts of omission (neglect), usually on the part of a parent or guardian, that "result in harm, potential harm, or threat of harm to a child", regardless of parental intent. (Gilbert et al., 2009)*

In this chapter we are using the wider definition because it captures the broad sense of society's obligations to children, alongside individual parental and adult obligations. Child abuse and violence towards children includes neglect, physical abuse and sexual abuse. In this respect then, abuse and violence are actions by adults (usually) which create harm and injury for children and in vital and important senses create harm and disadvantage (sometimes very significant harm and disadvantage) for children both as they grow up and, as some of the literature indicates, for some into their adult lives.<sup>66</sup>



## New Zealand data on child abuse

New Zealand's record in relation to child abuse and neglect is well documented (UNICEF, 2011). While there are difficulties in measuring the extent of change in both the incidence and prevalence of child abuse, it is clear that the incidence of violence towards children in New Zealand is particularly high (Carroll-Lind, Chapman, & Raskauskas, 2011, p. 11). The difficulty in being certain about the extent of change over time is that reports of increased numbers may reflect the greater willingness on the part of adults, agencies and children to report abuse and violence and there are also changes in measuring and defining what constitutes abuse and neglect. There are, for example, anecdotal reports that the numbers of reported incidents of child abuse and neglect have increased significantly immediately after television programmes which are focused on abuse and have encouraged reporting. Irrespective of these reporting and definitional changes, child abuse and neglect are unacceptably high in New Zealand.<sup>67</sup>

Reports on child abuse and neglect are more likely to occur in poorer communities. This compounds the difficulties in measuring the extent of, and changes in the rates of, child abuse and neglect, and

<sup>66</sup> See, for example, Evans (2005).

<sup>67</sup> For a useful contribution to clarifying issues of measurement and definition, see Connolly and Doolan (2007).

in assessing the extent of child abuse in different socioeconomic groups. As Drucker (1997) notes in the US context:

*evidence shows that poor families are more likely than those with more economic resources to be identified and labelled as maltreating.*

Drucker's note is an important one. The significant implication is that reported differences between socioeconomic groups may reflect differences in willingness to report abuse and neglect rather than actual behavioural differences. The OECD (2011) report makes a similar observation: highlighting differences in exposure to potential reporters; difficulty in negotiating their way out of the system; and greater willingness to place people on a record because of factors such as ethnicity or age. Poor families are likely to have more contact with reporting agencies and are less able to use legal assistance to avoid officials taking formal action.

With these reservations in mind, Table 10.1 shows changes in child abuse notifications to the Child Youth and Family Service, 2004–2009, the most recent data available.

<b>Table 10.1. Ages of children and young people identified in care and protections received</b>					
<small>(Source: Ministry of Social Development (2010c) Table CY.2, p. 218)</small>					
Age of child or young person identified	2004/5	2005/6	2006/7	2007/8	2008/9
	Notifications requiring further action				
0-1 year	5,179	6,543	6,289	6,145	8,070
2-4 years	7,554	8,863	8,135	7,583	9,477
5-9 years	11,880	13,216	12,469	11,330	13,802
10-13 years	9,709	10,113	9,507	8,869	10,226
14-17 years	6,199	6,700	6,184	5,612	6,299
18 years or over	33	37	34	36	43
Not recorded	1,045	1,069	1,227	1,164	1,307
Total requiring further action	41,599	46,541	43,845	40,739	49,224
	Notifications not requiring further action				
Total not requiring further action	8,889	16,198	28,082	48,722	61,573
	All care and protection notifications received				
Total notifications received	50,488	62,739	71,927	89,461	110,797

Given the issues noted above in relation to changes in definitions and patterns of reporting, it is not possible to be definitive about the exact nature and extent of the increase. Nevertheless, we note (Table 10.2) that, over these five years, the number of investigations requiring action increased from just under 17,000 to just over 24,000.

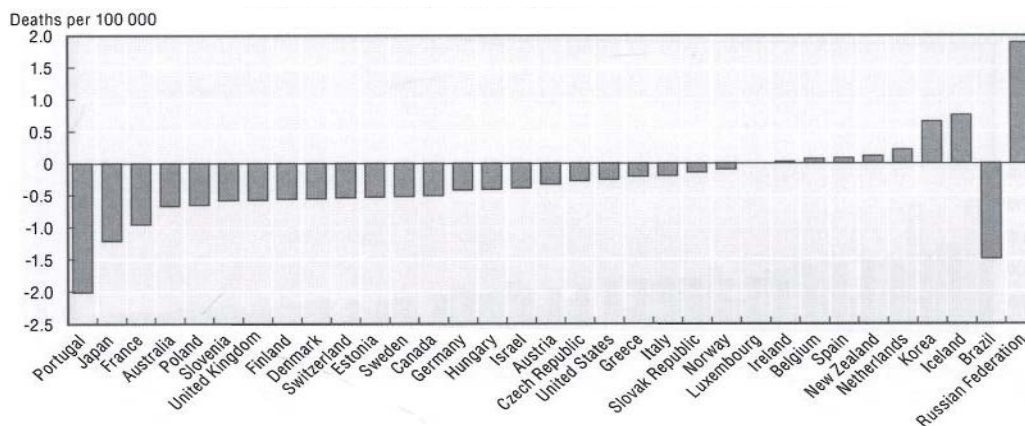
**Table 10.2. Findings of investigations of care and protection notifications requiring further action**

(Source: Ministry of Social Development (2010b) Table CY.3, p. 219)

Type of finding	2004/5	2005/6	2006/7	2007/8	2008/9
	Findings from investigations of care and protection notifications				
Emotionally abused	4,592	6,142	8,256	8,664	1,0938
Physically abused	2,351	2,336	2,274	2,321	2,856
Sexually abused	1,424	1,291	1,194	1,003	1,126
Neglected	4,074	4,199	4,486	4,302	4,677
Behavioural/relationship difficulties	4,355	4,657	4,461	4,154	4,256
Self-harm/suicidal	173	172	138	116	106
Not found	23,388	26,011	22,921	19,334	25,486
Total findings from investigation	40,357	44,808	43,730	39,894	49,444

New Zealand’s comparative position internationally is reflected in the two figures below, showing intentional and accidental injury to children across the OECD countries (OECD, 2011a). This data relates to both intentional and accidental deaths of children. The OECD (2011) notes that not all accidental injuries are the result of maltreatment. The numbers are not large, so small changes affect the figures; nevertheless, New Zealand is one of the few countries where the number of children dying of intentional injury has increased over this period.

**Figure 10.1. Changes in child deaths due to intentional injury, early 1980s to latest figures, average deaths per 100,000 children aged 0–14** (Source: OECD (2011), p. 249)



While there has been some decline in relation to accidental injuries, New Zealand’s figures are still significantly above those in most other OECD countries.

Economic work undertaken for Every Child Counts in 2008 found that the cost of child abuse and neglect amounted to NZ\$2b. This figure was calculated on the basis of the direct costs of health care and child welfare services; ongoing costs related to long-run health and crime impacts; and also the indirect cost of lost productivity (Infometrics, 2010). While precise calculation of costs in this area is difficult, the detailed work in this report gives a clear indication of the scope of the economic costs of child abuse and neglect in New Zealand.

### **International Overviews**

UNICEF's (2003a, p.13) cross-nation study found that, while ethnic minorities often have higher levels of child maltreatment, "it seems likely that the operative factor is not ethnicity but poverty (which disproportionately affects ethnic minority families)". In the course of the discussion on poverty and child deaths, they draw attention to the close interrelationships between poverty, unemployment, poor mental health (including addictions), being young and being the victim of violence and offending.

The recent OECD report (2011, p. 251) on the well-being of children reviews evidence about the linkages between economic indicators and child maltreatment, noting that while establishing causality is difficult, the data is "suggestive of at least some linkage between economic domains and child maltreatment at a country level". This relationship is stronger in relation to income inequality and accidental child mortality; the relationship is lower for intentional child death.

Moving more broadly into the relationship between income and what the report describes as "child maltreatment", the report begins by saying:

*there is considerable evidence, at the micro level of a child's family, that low income is significantly correlated with child abuse and neglect (OECD, 2011, p. 253).*

They suggest that the causal link between the two might come from the following factors: the ways in which low income restricts ability to meet children's basic needs; the links between low income and parental stress and depression; low income leading to lower returns on investment in children; a smaller number of disciplinary options for low income households because of lack of financial resources; and links between what they describe as "maltreatment related behaviours" and transfer payments: if maltreatment means that they risk losing children and thus income via child removal, parents should be less likely to maltreat their children (OECD, 2011, p. 253).

While acknowledging the difficulties in establishing the nature and strength of the causal links, the OECD report notes that three American studies provide evidence that the low income–maltreatment link may be causal. The third of these studies:

*provides the strongest evidence to date in support of a causal link between family income and child maltreatment (OECD, 2011, p. 255).*

The OECD suggests that causal issues might be affected by such factors as: limited parental education; poor quality jobs; substance abuse; child behavioural problems; and mental health issues. Such issues affect both parental income and child maltreatment (OECD, 2011, p. 254). They conclude:

*A large number of studies has been conducted on the determinants of maltreatment. Results point to economic resources playing an important role in influencing risk for child abuse and (particularly) child neglect. However, conclusive causal evidence has been elusive. But the evidence that maltreatment imposes large long-term costs both to the children involved and to society is clear (OECD, 2011, p.263).*

## International Studies

There are a number of international studies which reflect the significance of poverty as an important factor in child abuse, child maltreatment and child neglect. For example, Wilkinson and Pickett (2010, p.111) demonstrate the links between inequality and violence, including child abuse. While acknowledging the difficulties of causality and the linkages between poverty and a range of other family, personal and structural disadvantages, the relationship is neatly reflected by Stevenson's comment that "poverty is one in a complex web of factors" (Stevenson, 1998, p.21). Other reports have been more specific, a US report on primary prevention of child abuse stating that the

*high poverty rate is the single best predictor of child abuse and neglect....Stressors such as unemployment, single parenthood, limited access to health care, housing instability and exposure to environmental hazards contribute to neglect (www.exmaxhealth.com).*

Drucker (1997) goes further in his discussion of the consequences of poverty and child maltreatment on IQ scores:

*over the last 25 years nearly all studies of poverty have noted the correlation between poverty and child abuse. Although child abuse is not caused by poverty, it seems to be intricately linked. Clinical studies of child abuse and neglect have shown that poor families are more likely than those with more economic resources to be identified and labelled as maltreating.*

In a related vein, Lee and Goerge (2009, p.755) found that maternal age and poverty are each strong predictors of a substantiated report of all types of maltreatment, "even after controlling for other sociodemographic variables". In addition, in his report on the results of two surveys of family violence based on structured interviews with heads of households representing a sample of the US population, Gelles (1992, p.263) found that

*violence towards children, especially severe violence, is more likely to occur in households with annual incomes below the poverty line.*

The links between poverty and other stresses such as unemployment, poor housing and mental health issues is also taken up by Frederrick and Goddard (2007, p.324):

*one of the main factors identified in terms of risk of child abuse is family poverty with evidence of a relationship between neglect and poverty. Clearly the stresses of living in poverty, the lack of choices available and limited material supports present considerable challenges for families raising children.*

As has been frequently observed, poverty creates stress. This stress has an important effect on parental ability to respond appropriately to children. Besharov and Laumann (1997) argue that poverty and the associated personal and family disadvantages can weaken parents' own sense of their strengths and effectiveness and reduce their sense of control. Russell et al. (2008, p. 83) suggest:

*In some instances the multiple vulnerabilities or risks may place parents in situations where providing sufficient care and protection of their children becomes virtually impossible.*



While noting that (1) abuse occurs across all socio-economic groups and (2) most parents living in poverty do not abuse or neglect their children, a review of the evidence by the National Society for the Prevention of Cruelty to Children (NSPCC) (2008, p.1) in the United Kingdom went on to say that:

*research shows that children who grow up in poverty can be more vulnerable to some forms of maltreatment, particularly neglect and physical abuse. They also have an increased risk of adverse experiences and negative outcomes, both in the short and long term.*

These outcomes extend across health, education, being victims of crime and unemployment. Poverty and maltreatment, NSPCC (2008, p.1) observes, means that these children are doubly disadvantaged “because the experience of maltreatment may in turn further undermine life chances in the long term”. This longer term relationship is reflected in the Australian study discussed below.

Echoing the studies previously referenced, the NSPCC draws out the links between poverty and a range of other sources of disadvantage and deprivation; moreover, the greater the deprivation, the greater the risk of maltreatment. NSPCC (2008, p.3) summarise their findings as follows:

*This study therefore confirmed the association between socio-economic status, financial problems in the family and parental child maltreatment.*

The relationship is more apparent in relation to physical and emotional maltreatment than in relation to sexual abuse. Significantly, NSPCC note, too, that those working in unskilled or semi-skilled jobs were more likely to have experienced serious physical abuse than those working in professional occupations.

As others have done, NSPCC also reported a strong correlation between poverty and neglect. Of course, this does not mean that poverty causes neglect; rather, it points to an important link between the two and to the stresses on families and communities created by poverty. NSPCC’s quotation from Minty’s work captures this connection well:

*it could well be that chronic poverty plays a part in many instances of physical child neglect by possibly reducing morale, or by increasing a sense of general hopelessness and passivity (National Society for the Prevention of Cruelty to Children, 2008, p.7).*

The linkages between poverty and child abuse are not limited to children’s own experiences. Evans (2005) interviewed a sample of Australian people receiving emergency relief; the participants were interviewed about their own early experiences, many of them reporting violence and abuse as children. Her conclusion is significant for a broader understanding of the relationship between poverty and abuse:

*adverse childhood experiences, for the majority of these interviewees, are seen as significant contributors to poverty outcomes in later life. Consequently, interventions which provide support for children dealing with experiences of abuse and adversity may result in prevention of poverty in their adult lives....In turn, it may be that child abuse and adversity in childhood are factors in the complex origins of poverty in adulthood (Evans, 2005, p. 335).*

Turning, then to the New Zealand material, there are no New Zealand studies specifically focused on the relationship between poverty and child abuse and neglect. However, in its review of children at risk of death as a result of maltreatment, the report from Child Youth and Family and the Ministry of Social Development (2006, p.3) summarises the available evidence as follows:



*a range of cross-national studies show that child death from maltreatment occurs predominantly in the context of poverty, psychological stress and limited support, while child murders (defined as a wilful act to kill the child) occur across the spectrum of socioeconomic status, including high-income groups.*

In their review of the work on child death, Connolly and Doolan (2007) identify poverty as one of the characteristics associated with perpetrators of child homicide. While poverty is one of a range of considerations, it is identified as an important factor. Their subsequent, broader framework developed for understanding a range of factors associated with building family resilience includes “growing up in poverty” as an important childhood vulnerability (Connolly and Doolan, 2007, p. 113).

Similarly, the Taskforce For Action On Violence Within Families (Ministry of Social Development, 2006c) identifies poverty as an important issue in violence generally (not just in relation to child abuse); and they argue that reducing poverty is an important component of a comprehensive approach to reducing levels of violence.

### Implications and Recommendations

Most of the discussion in New Zealand about abuse and neglect has focused on the behaviour of individual carers. A wider discussion and analysis would include consideration of, and attention to, the significance of economic, income and poverty factors. Separating the effects of poverty from associated family circumstances such as unemployment, health pressures, and inadequate housing as important considerations around questions of abuse and neglect is extremely difficult. It is equally difficult to trace a simple causal connection. However, that does not negate the existence of a link.

In the New Zealand context, much of the response to issues of poverty, neglect and abuse has framed it as an individual problem with the blame on individual behaviour. Russell et al. (2008, p.83) argue that this has also been the response in the American context, rather than defining poverty “as perpetuated by socio-economic arrangements that promote inequality and social isolation”. Both countries have an equally strong focus on the behaviour of individual parents as the cause.

Russell et al. (2008, p. 86) observe that “Poverty is the common thread uniting families identified by child protection services as being at high risk for neglect and abuse”. There is no New Zealand research around this question, but practice experience in the social services would certainly suggest there is, at least, a strong connection. The focus in New Zealand has too often been on issues of ethnicity, but as the UNICEF (2003b, p. 13) report observes:

*it seems likely that operative factor is not ethnicity but poverty (which disproportionately affects ethnic minority families).*

Russell et al. (2008, p. 87) go on to demonstrate that the views, aspirations, needs and experiences of poor parents have been ignored in establishing what parents need from the social services, despite the fact that “the common experience was one of economic deprivation and depression”.

Money matters, and while reducing poverty will not eliminate abuse and neglect, it will make a significant difference. This requires moving beyond the privatisation of poverty and beyond blaming parents, the response which too commonly occurs in discussions about child poverty. To quote Russell et al. (2008, p. 93):

*The consistency with which poor parents across time and across continents identify financial hardship as a barrier to effective parenting is considerable, but not surprising.*

This requires a broad approach to the needs of children and the prioritising of the most vulnerable children. However, prioritising cannot mean individual responses. As the UNICEF (2003, p. 21) report concludes:

*experience would suggest that no national strategy to prevent or reduce the maltreatment of children will achieve major gains without addressing the question of economic poverty, which ... is the close companion of physical abuse and neglect.*

For some families, effective assistance will require long-term, comprehensive and holistic support if the lives of all children are to be advanced and improved and if we are to ensure that all children have the opportunities to grow and develop to the best of their abilities. The critical question is whether as a society we are really committed to children's well-being. As Kammerman (2000, p.626) concluded:

*In the end, it is simply a matter of priorities and values.*

## Recommendations

- Locate the best interests of children at the centre of programmes and services for children and families faced with issues of violence and child abuse;
- Include an understanding of the significance of poverty in the context of child abuse, and adopt a comprehensive and holistic approach to child abuse and violence towards children;
- Provide comprehensive and sustained services to ensure long-term improvement for children in severely disadvantaged and deprived families;
- Wherever possible, considering the best interests of the child, treat parents as active partners in the development of effective services;
- The small number of children who are unable to be provided for adequately and appropriately by their parents are especially at risk and require particular attention and priority for their protection and their effective development.

Beth Wood<sup>68</sup>

In 2007, after two years of very intense public and political debate, section 59 of the Crimes Act 1961 was repealed and the use of force for the correction of children became illegal.<sup>69</sup> The new law that amends section 59 is clear in its prohibition of the use of force for correction. The law is less clear about the nature of force that can be used to restrain a child in certain circumstances (Hornibrook, 2008). New Zealand now has a law that is congruent with children's rights to physical integrity and protection from violence, with research findings that clearly indicate that physical correction is associated with a range of poor outcomes for children (A.B. Smith, 2005) and with contemporary efforts to promote positive parenting and reduce family violence. A number of factors contributed to the law change coming about when it did. These include: chance (MP Sue Bradford's private bill being pulled from the ballot), the political leadership shown by Sue Bradford and the then Prime Minister, Helen Clark, and the Labour Party, and eventually the present Prime Minister, John Key and the efforts of a great number of child advocates across professions who supported change (Wood, et al., 2008).

The general public have been deeply divided about the law change with many still convinced of the efficacy of physical punishment and their perceived right to treat their children as they wish and in addition being resentful of being told how they should behave. Strenuous efforts on the part of conservative groups led to a non-binding postal referendum held in 2009 on the confusing question "Should a smack as part of good parental correction be a criminal offence in New Zealand?" Voter response rate was low but the majority of those who did respond voted "no".<sup>70</sup> This result cannot be regarded as an accurate reflection of New Zealanders' attitudes to the new law or the use of physical punishment of children. Because the only monitoring of the implementation of the law that is currently happening is focused on whether parents are being unfairly or unnecessarily investigated and/or prosecuted for minor use of force with children we have no current information about public attitudes towards the law and the use of physical punishment. Results from a survey conducted in 2008 showed encouraging trends (Children's Commissioner, 2008). Regular reports on the application of the law by Police (New Zealand Police, 2010) and two reviews (Ministry of Social Development, 2009a, 2009b) have found that the law is being implemented sensitively and sensibly with very few prosecutions taking place for minor infringements of the law.

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69 For a full history of law change in New Zealand see, Wood, Hassall, Hook, and Ludbrook (2008).

70 For further information on 2009 referendum visit [www.YesVote.org.nz](http://www.YesVote.org.nz)

# Chapter 11. Families, Children, and the Law

Catriona MacLennan<sup>71</sup> and Frances Joychild<sup>72</sup>

## Introduction

Children have not been well served under New Zealand's social policies and legislation. This chapter outlines the state's obligations and duties toward children under laws and conventions that are, and are not, being complied with, and looks at some of the consequences.

## United Nations Convention on the Rights of the Child

In 1993 New Zealand ratified the United Nations Convention on the Rights of the Child (UNCROC) (United Nations, 1989). This sets out the civil, political, social, economic, health and cultural rights of people under the age of 18. While signatories agree to "undertake all appropriate legislative, administrative and other measures to implement the rights recognised in the convention", New Zealand made three reservations when it ratified UNCROC.<sup>73</sup> After 18 years, the three reservations remain:



- allowing a distinction between children according to their immigration status. Effectively this means that the children of overstayers and some asylum seekers have no right to education, health and welfare services.
- not specifying a minimum age of children to commence employment or regulating the hours and working conditions for those under 18 years old.
- enabling children to be detained in police stations and other adult facilities, when no youth beds are available. This means that the practice of children being detained alongside adults continues.

### **New Zealand's failure to comply with its obligations**

The United Nations Committee on the Rights of the Child has reviewed New Zealand's progress towards compliance with the convention on three occasions over the past 18 years.<sup>74</sup> The Committee's 2011 concluding observations recorded deep regret that New Zealand has not yet withdrawn its reservations to the convention (United Nations Committee on the Rights of the Child, 2011).

The Committee criticised this country's lack of progress on compliance. It urged New Zealand to take all necessary measures to implement the recommendations previously made in the committee's 2003 findings, noting New Zealand's failure to make sufficient progress in relation to co-ordination, non-discrimination, abuse, neglect, child labour and juvenile justice. It recommended that all child-related legislation be a priority for Parliament.

The Committee also urged New Zealand to establish a permanent mechanism to ensure high-level and effective co-ordination of the implementation of the convention, noting that increases in expenditure on children in recent years were insufficient to eradicate poverty and address inequalities. It suggested initiation of a child budgeting exercise to allow strategic allocations to implement children's rights and later evaluation of them.

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<sup>73</sup> Reservations mean that a nation advises the United Nations that it is unwilling or unable to comply with aspects of the convention. Reservations may be either general or specific.

<sup>74</sup> In 1997, 2003 and 2011, and Ludbrook (2010).

Other recommendations included that steps be taken to:

- ensure that the business sector complied with international and domestic standards on corporate social responsibility, particularly with regard to respecting children's rights;
- urgently address disparities in access to services by Māori children and their families together with affirmative action if necessary for the benefit of children in vulnerable situations;
- promote the principle of respect for the views of children and systematic consideration of children's perspectives in formulating laws, policies and in judicial proceedings;
- prioritise the elimination of all forms of violence against children;
- make greater efforts to assist parents and guardians with child-rearing responsibilities;
- establish mechanisms for monitoring the number of cases of violence, sexual abuse and neglect;
- strengthen support for victims and providing access to adequate services for recovery and counselling;
- take all necessary measures to enable disadvantaged families and their children to move out of poverty in a sustained way;
- require children's consent to adoptions and lowering to at least 18 years the age at which adopted children can access their files.

The care of children

Two pieces of domestic legislation deal specifically with the care of children in New Zealand.

### **Children, Young Persons and Their Families Act 1989**

The paramount consideration under this Act (s 6), is the welfare and best interests of the children. Another guiding principle for exercise of powers (s 5) is that consideration is given to the wishes of the child or young person. The Act legislates a regime for dealing with the care of children. Its object is to promote the well-being of children, young persons and their families and family groups by establishing and promoting services within the community to advance the well-being of children and assist parents and whānau groups to discharge their responsibilities to prevent their children from suffering harm, ill-treatment, abuse, neglect or deprivation.

### **Care of Children Act 2004**

This Act governs the care and guardianship of children. Its aim is to "promote children's welfare and best interests, and facilitate their development" by ensuring that appropriate arrangements are in place for their guardianship and care. The other purpose of the legislation is to "recognise certain rights of children" (s 3). Section 4 provides that the welfare and best interests of the child *must* be the "first and paramount consideration" in the administration and application of the Act and in any other proceedings involving the guardianship of, or the role of providing day-to-day care for, or contact with, children.

In practice, in decisions made under these two pieces of legislation, the government does not make the welfare and best interests of children the paramount considerations, primarily because it fails to make adequate resources available to the Family Court and the Department of Child, Youth and

Family to properly carry out their responsibilities.<sup>75</sup> This results in long delays in investigating, hearing and finalizing cases relating to children, with staff routinely stressed and overworked (D. Joyce, 2010a, 2010b).

## Children and Immigration

New Zealand has long-standing obligations under international conventions to place the best interests of the child at the centre of immigration decisions, yet twice in recent years the country's most senior court has found the government's policies to be wanting in that insufficient weight has been given to the interests of the child.

### ***Tavita v Minister of Immigration [1994] 2 NZLR 257***

After Mr Tavita's application in 1993 for permanent residency was declined and a removal order was issued, he sought an interim order preserving his position and those of his wife and children, and an order quashing the removal order and requiring the Minister of Immigration to issue a permit to enable him to remain in New Zealand. If he were forced to return to Samoa, he would lose contact with his daughter; and would have no means of supporting his wife and daughter. A consultant paediatrician confirmed the importance of the close bond between Mr Tavita and his daughter and stated that separating them would be counter to the principles in the Children, Young Persons and Their Families Act. The Crown accepted that the Associate Minister and the Department had not considered the international instruments in making their decision, but nor were they required to. The Court of Appeal said there was a need for a balancing exercise and the basic rights of the family and the child were the starting point. Justice Cooke described as "unattractive" the Crown's argument that the Minister and the Department were entitled to ignore the international instruments as it seemed to imply that adherence to the international instruments had been at least partly window-dressing.

Article 9 (1) of the International Covenant on Civil and Political Rights 1966 (ICCPR) which New Zealand ratified in 1978 provides that countries "shall ensure that a child shall not be separated from his or her parents against their will, except when competent authorities subject to judicial review determine, in accordance with applicable law and procedures, that such separation is necessary for the best interests of the child."

Article 3 (1) of UNCROC provides "In all actions concerning children, whether undertaken by public or private social welfare institutions, courts of law, administrative authorities or legislative bodies, the best interests of the child shall be a primary consideration."

Following the case, the New Zealand Immigration Service introduced a humanitarian interview procedure to ensure the international obligations were observed. Immigration officers are made to go through a three-part standard questionnaire to obtain additional personal information to enable removal decisions to be made in accordance with New Zealand's international human rights obligations. Stage three includes references to family circumstances and the interests of any children involved.

In 2005 the New Zealand government changed the law to provide that children born in New Zealand did not automatically become New Zealand citizens at birth. That law change took effect on 1 January 2006. An updated Immigration Act was passed in 2009, most sections of which took effect on 29 November 2010.

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<sup>75</sup> The Independent Police Complaints Authority reported in February this year on serious delays in investigating claims of alleged child abuse in the Wairarapa since 2006 and systemic problems in the handling of such files with senior police implicated in covering up the numbers.

### **Ye & Ors v Minister of Immigration & Anor [2009] NZSC 76**

In this case, the Supreme Court found the Immigration Department had made a fundamental legal flaw in its design of the humanitarian interview questionnaire. Under s 47(3) appeals could only be brought on the grounds that there were “exceptional circumstances of a humanitarian nature that would make it unjust or unduly harsh for the person to be removed from New Zealand, and that it would not be contrary to the public interest to allow the person to remain in New Zealand”. The questionnaire did not direct the official’s mind to this provision when considering the issue of the interests of the child. On this ground, the Court set aside the decision to remove the Ye parents.

The unsatisfactory way in which immigration decisions relating to children continue to be dealt with in New Zealand is well illustrated by the 2010 case where both parents of three New Zealand-citizen children, an eight-year-old and two six-year-old twins who had lived in New Zealand all their lives were being deported. The children would go with their parents to live in a slum in Jalandhar in India, where they would be subject to caste discrimination, without rights to attend school or use hospitals, sharing a house with no sanitation or showers with three other families. Eventually, Associate Immigration Minister Kate Wilkinson granted the parents 12-month work visas, meaning they could remain in New Zealand.<sup>76</sup> The family’s Immigration Consultant, Tuariki Delamere, said media pressure had saved the family from being sent to India (Delamere, 2011, p. 8).

It is completely unsatisfactory that children’s futures should be determined by pressure brought through media attention, rather than through an application of legal principles that places proper weight on the welfare and interests of the child.

#### Children in Detention

Children charged with offences in New Zealand are routinely detained in police cells along with adult detainees, as there are not enough beds for them in residences established under s 364 of the Children, Young Persons and Their Families Act. In 2009, 77 young people were detained in police cells for an average duration of 1.9 days. In 2010, the Commissioner for Children reported that, while there has been a decline in the actual number of young people detained and the average length of time they spend in cells, the average of 48 hours is unlikely to decrease (Children’s Commissioner, 2010).

The Children, Young Persons and Their Families (Youth Courts Jurisdiction and Orders) Amendment Act 2010 extended the Youth Court’s age jurisdiction from 14 to 12 years, creating the potential for 12- and 13-year-olds to be detained in cells with adults. The grave danger of incarcerating children with adults is well known, and is contrary to children’s rights under the convention. We join with the Human Rights Commission (2010a) in urging that New Zealand’s reservation be removed and steps taken to ensure this practice stopped.

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<sup>76</sup> The United Kingdom court has also recently confirmed an obligation on immigration officials to have regard to the need to safeguard and promote the welfare of children when it was making decisions: *ZH (Tanzania) v Secretary of State for the Home Department* [2011] UKSC 4. A woman had arrived from Tanzania in 1995 and was being deported after three unsuccessful asylum attempts. During that time, in a relationship with a British citizen, she had two children, both of whom were British citizens. The parents were separated. The father had HIV, lived on a disability allowance, and was reported to drink a lot. Eventually the Secretary of State conceded that it would be disproportionate to remove the mother from Britain. However, the case went to the Supreme Court on the issues of the general principles to be applied in such instances.



## Children and Domestic Violence

Domestic violence in New Zealand accounts for 39% of all homicides, 42% of all kidnappings and abductions, 44% of all grievous assaults, 64% of all serious assaults, and 34% of minor assaults identified as family violence (Wellington Women's Refuge, 2011). The Domestic Violence Act 1995 aims to "provide greater protection from domestic violence". The objects of the Act (s 5) are to reduce and prevent domestic violence in relationships by recognising that domestic violence in all its forms is unacceptable behaviour, and by ensuring that there is effective legal protection for victims. The act aims to achieve its objects (s 5,ss 2) by empowering the court to make orders to protect domestic violence victims; ensuring that access to the court is as speedy, inexpensive and simple as is consistent with justice; and providing appropriate programmes for domestic violence victims.

Domestic violence includes psychological abuse of children (s 3) by allowing them to see or hear the physical, sexual or psychological abuse of a person with whom the child has a domestic relationship. However, governments have been slow to offer protection and support to child witnesses and victims of domestic violence. The Domestic Violence Act 1995 provides for counselling for perpetrators and victims of domestic violence, but in practice children's programmes have been the last programmes to be provided.

Despite the laudable objects and policy behind the domestic violence legislation, far too little is done to provide support for domestic violence victims seeking to leave violent relationships, or to provide safe accommodation and long-term support for them and their children to begin new lives. Women's Refuges in New Zealand lack secure and adequate funding and are chronically overcrowded. Children suffer huge stress and disruption when they and their mothers have to leave their home and go to a refuge. They also have their education interrupted. Adequate resources could and should be provided to ensure that women and children are safe in their homes and can remain there, for example, through providing permanent funding for Auckland-based family violence prevention agency Shine's safe@home project.<sup>77</sup> The increased security means that women and children not only are safer, but feel that they are safer. The women and children can therefore remain in their homes, which is immensely valuable in trying to provide continuity for children at an extremely stressful time.

## Children with Parents on Social security Benefits

Of all New Zealand children, 22% live in families where the parents receive their income from a social security benefit (Johnson, 2011b). As indicated elsewhere, benefit levels are woefully inadequate to provide these children with adequate standards of living to meet their basic needs. Recent major government initiatives were implemented to alleviate child poverty by injecting significant funding into families with children on low incomes who meet a work test of 30 hours in paid employment. However, children whose parents were in the lowest income category, in receipt of benefits, have been excluded.

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<sup>77</sup> Safe@home was successfully piloted for two years in Auckland's western suburbs but has no permanent funding, and no money to implement the initiative throughout Auckland and around the rest of New Zealand. It provides security upgrades to the homes of those assessed as being at the most extreme risk of serious injury or death from domestic violence: replacing glass doors with solid doors; installing deadlocks, peepholes and door restricters; fitting security lights; and fitting burglar and smoke alarms as domestic violence victims may be at risk of having their homes burnt down. Victims are provided with handheld personal alarms to immediately summon assistance.

Thus 22% of our country's children are condemned to endure all the negative consequences of poverty, and they must also contend with their parents being subjected to a hostile and punitive social security system.

#### **Benefit debt creation - being found not to have been entitled to a benefit**

Sometimes a beneficiary is overpaid because of a departmental mistake of which the beneficiary is unaware. When this overpayment is picked up, WINZ establish an overpayment against the beneficiary. Money is regularly deducted from their already low level of benefit until the whole overpayment is repaid. This can take years and cuts deeply into the family's already straitened circumstances.

Sometimes beneficiaries fall foul of the relationship rule. This particularly affects women on the Domestic Purposes Benefit (DPB) who have no other financial support to raise their children. They may begin a relationship which is far from committed that has some financial intermingling though no financial dependence. Alternatively, they may be trying to end a relationship but still have regular contact and some interconnectedness with the father who parents the children. The beneficiary may not consider this a relationship, particularly if they pay all the children's outgoings and the family costs of living from the DPB. Nevertheless an official may deem this a relationship and set a date from when the beneficiary was not entitled to the benefit. An overpayment is established against the beneficiary and the entire benefit from that time on must be repaid.

#### **Criminal proceedings against beneficiaries for fraud**

Sometimes after an investigation into a relationship, the beneficiary will be prosecuted for 'benefit fraud' on the basis they knowingly tried to hide their relationship from the Department so as to retain eligibility for the benefit.

Beneficiaries who are charged with benefit fraud are charged under the Crimes Act 1961 with fraudulently using a document to obtain a pecuniary advantage (s 229A) and under the Social Security Act 1964 with wilful omission to supply material particulars (s 127). If convicted, the penalty depends largely on the amount of money involved. If it is a smaller figure they may receive a fine or community work, but if the sum involved is over about \$30,000 the court will consider imposing a custodial sentence.

In typical fraud sentencing cases, the judge decides the sentence taking all factors into account, including any reparation the offender might be paying to make up for their crime. Prior to 1999, prosecutors for benefit fraud asked the court to impose a sentence that included a reparation order against a convicted beneficiary; that is, the beneficiary had to repay the benefit money to the victim (the state). In 1999 the Court of Appeal criticized the courts for imposing large amounts of reparation against a beneficiary where there was no realistic prospect of payment being made within a very few years. It said this was inappropriate and an order should not be made, at least for the full amount.<sup>78</sup>

Prosecutors now do not seek reparation at sentence, hence the judge sentences on the basis no reparation is being paid. That leaves no room for a discount in sentence because of reparation. If the beneficiary is sentenced to jail she receives no discount in sentence. Nevertheless after completing the sentence the Department still pursues the beneficiary for the full amount of the overpayment, making deductions into the benefit which in some cases will be for the life of the beneficiary and

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<sup>78</sup> Justices Richardson and Blanchard. In the case of Isabella Ruka \$x had been ordered.

beyond. The beneficiary has therefore received a larger penalty than others who have been convicted of fraud.

People who have no hope of repaying a civil debt have the option of entering into the *No Asset Procedure* or *bankruptcy proceedings*. But debts to the Crown are not extinguished by bankruptcy proceedings. While debts incurred by fraud are also not extinguished by bankruptcy, it is most common for settlements of debt to be reached and an end to the debt for the debtor. Not so beneficiaries whose debts can be millstones around their necks for life.

Perhaps even more disturbing, children whose mothers are found to have committed 'benefit fraud' over \$30,000 (being in a relationship for two to three years or more) are typically imprisoned, despite their having emotionally vulnerable dependants. Children who have lived through the stress of their parent's investigation and prosecution then suffer the trauma of having their mother removed from them and the family broken up.

### ***Osborne v Chief Executive of Ministry of Social Development 2009***

This High Court case considered in detail issues relating to recovery of overpayments of the DPB. Linda Osborne was convicted of 17 charges under s 229A of the Crimes Act and sentenced to 3½ years' jail. When she came out of jail, she and her partner were granted an unemployment benefit. WINZ advised that it would deduct \$20 a week from her benefit as repayments on the debt for which she had been jailed. She challenged that decision at a Benefit Review Committee and later in the courts. The High Court affirmed the Benefit Review Committee's decision that criminal proceedings did not preclude the civil recovery of money. S 38(2) of the Sentencing Act made it clear that victims were not precluded from obtaining additional relief through other proceedings available to them. The fact that it would take Ms Osborne 332 years to repay the debt was not relevant. The High Court emphasised the importance of the Chief Executive's obligations under the Public Finance Act.

Seeking to recover tens of thousands of dollars from the poorest people in our community is incompatible with the purposes of making families independent of the state. Debt enforcement traps the children and their parents in a poverty cycle they have no hope of escaping. While the parent remains on a benefit the Ministry might typically take \$20 a week from her for repayment of the debt. This is a huge sum to a beneficiary and means in practice that the children will be penalized and not provided with the food, clothing, or access they need to participate fully at school and in their community. If the parent can get paid work, the debt repayment deducted each week will immediately be increased so the family will overall be no better off financially. If the debt is above a certain level, there is no realistic prospect that she will be able to repay it in her lifetime, even if she is working. This is a crushing additional burden to place on a very low-income family under stress; more so when the mother has already served a jail sentence to pay for her crime.

### **The other partner in the fraud**

It is disturbing that the Department rarely takes action against men who have been in relationships with the mother and had use of the benefit money received in her name, particularly as it is common that fraud investigations are commenced by him 'dobbing in' his former partner after the relationship has ended. It can be said that by not pursuing the man the Department is complicit in his use of money he was not entitled to.

### **Department history of legal errors and beneficiary inability to challenge decisions**

The punitive approach is particularly surprising given the recent history in New Zealand of WINZ

applying incorrect law in its benefit fraud investigations in determining whether the beneficiary was in a relationship in the nature of a marriage for benefit purposes. Consequently, WINZ had to cancel \$35 million in debt it had laid against beneficiaries (Joychild, 2010). In another case the Courts held that the Department was not applying the correct law in relation to special benefits and many beneficiaries had not received the special benefit to which they were entitled.

Beneficiaries cannot afford lawyers to challenge decisions made by the Department against them. Yet social security legislation and practice is complex and confusing. Contradictory and inaccurate computer-generated letters can flood into a beneficiary's home, some of them threatening to cut off the benefit, or advising it has been cut, causing anxiety and distress, when the beneficiary has done everything asked of them. Beneficiaries are typically reliant on voluntary advocates, whose coverage is sparse and patchy, to challenge the Department. Benefit Review Committees are not independent of the Department and often act as a rubber stamp.

Section 86 of the Social Security Act deals with the recovery of payments made in excess of authorised rates. S 86 (1) states that the Chief Executive of the Ministry of Social Development "may" recover the amount from the beneficiary as a debt due to the Crown. The use of the word "may" means that Parliament is clearly not making it mandatory for the debts to be recovered. Section 86 (1A) states that money to which a beneficiary was not entitled "shall constitute a debt due to the Crown and may be recovered at the suit of the Director-General or the Director-General may recover that debt by deduction from any benefit thereafter payable to that person." Note once again the use of the word "may." It is not mandatory for the Ministry to recover the debt.

## Recommendations

- New Zealand needs to withdraw its reservations to UNCROC and implement all of its obligations under the convention;
- The Family Court and Department of Child, Youth and Family should be resourced so that cases relating to children can be properly and promptly resolved;
- Children born in New Zealand automatically become New Zealand citizens;
- Non-New Zealand citizen children are entitled to health and education services while they are in New Zealand;
- No children or young people should be detained in police cells and steps should be taken to ensure there are always beds available in youth justice facilities;
- The age of criminal responsibility should be raised back up to 14 years;
- Counselling programmes should be made available for child domestic violence victims and witnesses;
- Implement the safe@home programme or an equivalent service nationwide;
- Amend the Social Security Act to require the best interest of children to be taken into account in all decision-making relating to benefits or alleged benefit fraud;
- Establish an independent benefits review system, either through an Ombudsperson's Office or ACC review model.

# Chapter 12. Child Health and Poverty

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*Some children have dramatically different life chances based on their early life experiences. If these experiences are harmful and ongoing, children's health outcomes will be poor, both as children and adults. Children in low-income families have the poorest health educational and social outcomes, which tend to compound over the course of their lives. (Public Health Advisory Committee, 2010a)*

## Introduction

Poverty is one of the leading factors contributing to illness, disease, disability and deaths in New Zealand children. For children, poverty means lacking the material resources to stay well. Income is needed for many basic needs of children: health care (transport, doctors' fees, prescription costs, hospital parking); nutritious food; adequate housing (not crowded, damp, cold or too costly); clothing, shoes, bedding, washing and drying facilities; and education (early childhood education fees, transport, stationery, school donations, exam fees, school trips). Furthermore, households in poverty are stressful environments for children to grow up in. Stress affects their immune responses to infections and reduces their resilience to mental health problems.



The health of children in New Zealand compared with OECD countries

When UNICEF published its report four years ago – “An overview of child well-being in rich countries” (UNICEF, 2007) it was no surprise to those working in child health in New Zealand that we ranked poorly (24th out of 25 nations). Among OECD countries our infant death rates were the fourth worst; our immunisation rates the third worst, and our childhood deaths from injury the worst. In 2009 the OECD published a report – “Doing better for children” (OECD, 2009a). In regard to New Zealand they specifically noted that child mortality is higher than average; and immunisation rates are poor especially for measles and pertussis; and we have the highest rates of suicide among the 15–19 year age group. They went on to say that New Zealand spends less than the OECD average on young children; that New Zealand should spend considerably more on younger, disadvantaged children; and that New Zealand needs to take a stronger policy focus on child poverty and child health. The Public Health Advisory Committee (2010a) report for the Ministry of Health somewhat starkly outlines our historical challenges for child health with a legacy of “haphazard ‘boom or bust’ child policies and ‘stop-start’ programmes that are often not fully implemented.”

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## The health inequity of children within New Zealand

In New Zealand, children growing up in poverty experience significantly poorer physical and mental health outcomes than other children across a wide range of health measures, including infant mortality and hospital admissions for infectious and respiratory diseases (Craig, et al., 2007; National Health Committee, 1998). Furthermore, New Zealand research demonstrates that growing up in poverty during the crucial early years increases the risk of longer-term negative outcomes, such as heart disease, poor dental health, antisocial behaviour (Boden, Fergusson, & Horwood, 2010), and drug abuse in adulthood (Poulton et al., 2002). New Zealand's historical base shows large disparities in child health outcomes, particularly since the early 1990s. There was a marked rise in hospitalisations beginning in 1992, closely following the significant rise in child poverty which occurred at that time (Craig, et al., 2007). In the latter part of the last decade, alongside a period of relative economic stability for New Zealand, there was a levelling out of hospitalisation rates for many diseases and in some cases a small fall. However, it was of significant concern that rates remained high by OECD standards and did not fall back to pre-1990 levels.

Not only have health outcomes in New Zealand children worsened, but disparities in poor health outcomes have widened over the past three decades: children in very low-income families, children of beneficiaries and children of prisoners have worse health outcomes than other children (Public Health Advisory Committee, 2010a). Furthermore ethnic disparities are large with Māori and Pacific

### **Vignette One: Why do children in poor environments get sick?**

Juliette is 8 months of age and has just been admitted to hospital with pneumonia. Why did she end up in hospital at such a young age? She only had one of the three childhood immunisations. Her mother is a young solo parent, caring for Juliette and her two-year-old brother. Her father has drug and alcohol dependency problems and does not live with them or support them. Juliette's mother has a history of physical and sexual abuse, and no longer has contact with her family. She had no education past age 14, is significantly in debt, and is very anxious around authority figures as she is afraid she will be seen as a poor mother and will lose her children. Since Juliette was born, they have moved house four times and are currently living in a room in an Auntie's house, with 14 other people. It is cold and damp and several of the adults smoke.

Why did Juliette get sick?

Firstly in a household like this, the bacteria that cause pneumonia can easily spread with over-crowding, and many other sick people mixing with the infant. Bacteria spread via coughing and touching with unclean hands. Hygiene issues are difficult in crowded houses without money for power, hot water, adequate soap, towels and bed linen.

Secondly, Juliette's immune system will not respond as vigorously as other children to infection. She has poor nutrition, associated iron deficiency, which leaves her more prone to more and more severe infections. She will be stressed with all the challenges in her environment, and stress weakens the immune system's ability to fight infection. Her mother is occupied with many other challenges in her day-to-day living and did not manage to complete Juliette's immunisation programme so she is not fully protected against vaccine-preventable diseases.

Thirdly, Juliette has reduced access to health care services. She was unwell in the weekend but due to the cost of going to the After Hours service her mother delayed taking her to the doctor until Monday morning. Her Mum is young and inexperienced without background education or family support of her own to know the warning signs of an infant becoming very unwell.

Without significant support Juliette's story in a few years' time is likely to end up similar to Jack's.



children having about two to three times poorer health than non-Māori, non-Pacific (Public Health Advisory Committee, 2010a).

In March 2011, the New Zealand Medical Association published a statement about health equity, much of which applies to children, with emphasis on indigenous status, early life conditions, education, food security, health care services, housing, income, ethnic differences, social position and social exclusion (New Zealand Medical Association, 2011). Furthermore the February (2011) United Nations Committee on the Rights of the Child report recommended that inequalities in access to health services be addressed through a coordinated approach across all Government departments and greater coordination between health policies and those aimed at reducing income inequality and poverty. It also recommended that New Zealand take all necessary measures to provide appropriate

### **Vignette Two: childhood poverty leads to recurrent and ongoing problems**

Jack is nine years old, he is the second of three siblings, his father is in jail. Jack's Mum is 36 years old; she has a long-standing medical condition. She has been in and out of work for many years, manages a job for up to 6 to 9 months then finds herself unable to sustain it, either due to her own health issues or the recurrent illnesses of her children. Jack is overweight, he has learning difficulties at school and he is a bully in the playground. Jack has a large medical history: multiple visits to the GP and Accident and Medical Centres for asthma, eczema, chest infections, skin infections, injuries. Furthermore he has had TEN hospital admissions: wheezy bronchitis as a baby (twice), asthma (three times), a broken leg, a head injury, skin infection (twice) and a dental abscess.

Jack's story comes from a history of poverty, significant social stress, poor housing, poor nutrition, poor social support, and minimal parenting knowledge or education. From the literature of situations such as Jack's his outlook is very bleak. He is likely to have lifelong poor health, depression, drug and alcohol abuse when older, school failure, limited occupational options, criminality, broken relationships and a shortened life expectancy. He is likely to feel suicidal, and is at risk of attempting suicide. He is likely to cost the health and justice services a large amount of money over his difficult life.

support to allow disadvantaged families and their children to move out of poverty in a sustained way while, at the same time, continuing to provide assistance to those who remain under the poverty line.

There are a range of reasons why disparity gaps affect the health outcomes of our children so powerfully. For example contact with infectious organisms is likely to be higher in poor housing conditions: with overcrowding there is more contact with other sick people; limited washing facilities, sharing linen and towels make good hygiene harder to achieve; poor nutrition leads to a child being less likely to have resistance to the infectious organisms. Damp and cold housing make respiratory disease more likely. An emotionally stressful environment adds to disease risk by reducing the immune response. Stressful environments are also associated with greater mental health problems in the adults, including depression, substance abuse and family violence. These all have an adverse immediate effect on the social and emotional health of children, but also have the potential to change the developmental trajectory adversely, with increased rates of conduct disorder, depression, substance use and self-harm that manifest in childhood, adolescence and into adulthood.

Moreover, these children are likely to have less access to health care services due to cost barriers, barriers to getting to services, and, at times, less parental knowledge and less confidence in the services. Accidents and injuries are more common with the physical environments in poorer areas with fewer parks, busy roads, shared driveways, crowded houses often in poor repair and the lifestyle challenges for parents with less support and flexibility leading at times to less supervision of their children.



In recognition of the range of factors that impact on health outcomes for children growing up in poverty there are a range of health initiatives that do support better outcomes. Areas that make a significant difference include having good intra-uterine care in the pregnancy, supporting breastfeeding and healthy nutrition, a safe environment – both physically and emotionally, consistent parenting, broader community and whānau support, ease of access to well child and primary health care services.

## Youth Health

The main determinants of young people's health and well-being are behaviours and emotional health concerns that begin during early adolescence and progressively increase into early adulthood (Flory, Lynam, Milich, Leukefeld, & Clayton, 2004; Schulenberg, Sameroff, & Cicchetti, 2004). The trajectories for many of the most urgent issues facing New Zealand's health system such as tobacco use, obesity and mental health, originate during childhood and adolescence. For example, approximately 80% of young people who are obese during childhood and adolescence remain obese as adults (Herman, Craig, Gauvin, & Katzmarzyk, 2009; Whitaker, Wright, Pepe, Seidel, & Dietz, 1997).

Unfortunately New Zealand has a poor record when it comes to young people's health. Rates of youth suicide, death from motor vehicle injuries, unintended pregnancy and drug and alcohol use are among the highest in the Western world (Ministry of Health, 2002). In a recent national youth health survey, 15% of female secondary school students and 7% of male students reported significant symptoms of depression and 7% of female students and 3% of male students reported attempting suicide in the previous year (Adolescent Health Research Group, 2007). During adolescence, heightened risk-taking can lead to adverse health outcomes such as substance abuse, road traffic injuries and sexually transmitted infections (STIs). These risk behaviours can result in immediate consequences for young people (e.g. unprotected sex) or result in consequences later during adulthood (e.g. tobacco use).

Adverse health outcomes among young people not only impact their well-being but have wider social and economic implications as they hinder young people's potential development, which results in increased numbers of marginalised youth and increasing disparities in our communities. For example, rates of suicide attempts among young people living in poor neighbourhoods are twice those of young people living in more affluent neighbourhoods (Adolescent Health Research Group, 2007). Furthermore 22% of young people from poor neighbourhoods currently smoke cigarettes compared to 14% of young people from more affluent neighbourhoods (Adolescent Health Research Group, 2007). These adverse health outcomes are disproportionately experienced by young people living in poverty and impact on their ability to do well in school and contribute positively to their communities.

The most important factors that influence adolescent health and well-being are healthy families and communities that are able support and provide opportunities for adolescents to contribute and develop. Furthermore, young people's health and their families are also influenced by wider structural factors within nations such as poverty and unemployment as they influence the ability of young people to transition successfully into meaningful employment, further their training and education, and form long-term relationships and start families (Staff et al., 2010). Ultimately, the health and well-being of adolescents growing up in New Zealand reflects how well we provide equitable and fair societies with opportunities for young people to grow and flourish.

The New Zealand Child, Youth and Epidemiology Service (NZCYES), established in 2004, has been reporting standardised data on the health and well-being of our children back to 1988 enabling us to track with confidence what is happening (Craig & et al., 2011; New Zealand Child and Youth Epidemiology Service, 2009). Most recently NZCYES have been measuring the effect of the recent recession on children’s health, producing an annual “Children’s Social Health Monitor” which uses a mixture of economic, health and well-being indicators to monitor children’s health and well-being status through this economic downturn. The first Monitor report released in November 2009 showed a large rise in unemployment 2007–2009 in all groups, but the largest absolute increase was in Pacific and Māori groups (New Zealand Child and Youth Epidemiology Service, 2009). Tracking alongside this, as would be expected with increasing economic hardship, there have been increases over the past two years in hospital admissions for conditions that are known to occur more frequently in children who live in poverty (Figure 12.1).<sup>85</sup> The majority of these conditions are preventable infectious and respiratory diseases.

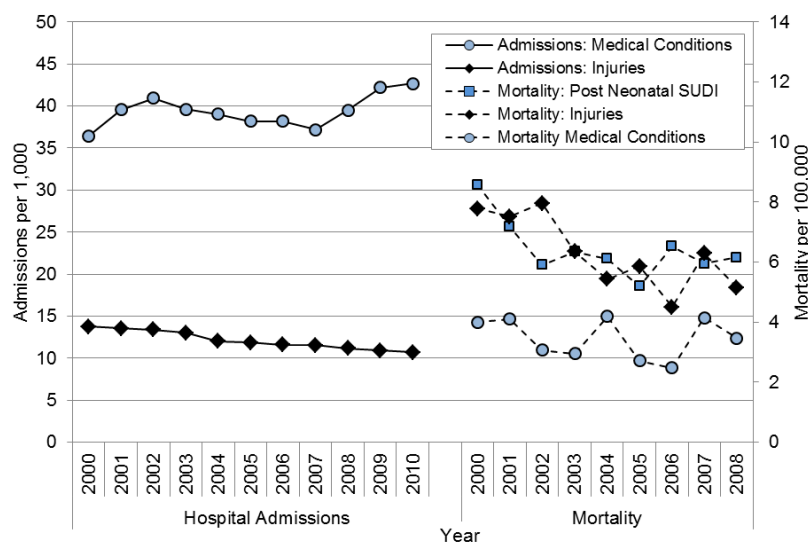
Examples of poverty-related child illnesses

**Potentially avoidable admissions to hospital**

A group of conditions that are considered to be potentially avoidable through early access to effective treatment in primary care are known as ambulatory sensitive hospitalisations (ASH). They include asthma, bronchiectasis (chronic lung damage), skin infections, constipation, dental decay, dermatitis and eczema, gastro-oesophageal reflux, nutritional deficiency, bacterial pneumonia, rheumatic fever, otitis media, acute upper respiratory tract infections, vaccine-preventable diseases, and urinary tract infection in children over four years of age (Craig, et al., 2008). A new set of ASH codes was developed by the NZCYES in 2007 (Craig, et al., 2008) and have been adopted by the Ministry of Health. For all these conditions there are large socio-economic and ethnic disparities for children, and hence, while a focus on

access to primary care is an important aspect there are much broader issues (the determinants of health) which drive the underlying burden of disease in these conditions such as household income, housing, nutrition, exposure to cigarette smoke, etc (New Zealand Child and Youth Epidemiology Service, 2008).

**Figure 12.1 Hospital Admissions (2000-2010) and Mortality (2000-2008) from Conditions with a Social Gradient in New Zealand Children Aged 0-14 Years (excluding Neonates)** (Source: Craig et al. 2008)



85 Via New Zealand Child and Youth Epidemiology Service: Numerator Admissions: National Minimum Dataset (Neonates Removed); Numerator Mortality: National Mortality Collection (Neonates Removed); Denominator: Statistics NZ Estimated Resident Population. Medical Conditions Admissions: Acute and Arranged Admissions Only; Injury Admissions: Emergency Department Cases Removed.

In New Zealand during the period 2003 to 2007 gastroenteritis (infectious diarrhoea), asthma and acute upper respiratory tract infections made the greatest contribution to ASH rates in children aged zero to four years, followed by dental conditions and pneumonia. Table 12.1 shows the relative risk of being admitted to hospital with any of these conditions. Children from areas with the greatest poverty (from NZ deprivation decile 10 (Clare Salmond, Peter Crampton, & June Atkinson, 2007)) have nearly three times the likelihood of being admitted to hospital over those from the most well-resourced areas (NZ deprivation decile 1). Children of Pacific ethnicity have 2.5 times the likelihood and Māori 1.6 times that of European/Pakeha children.

**Table 12.1. Risk Factors for Ambulatory Sensitive Hospitalisations** Using the New ASH Coding Algorithm in Children 0-4 Years, New Zealand 2003-2007 (Source: Numerator-National Minimum Dataset; Denominator-Census via NZ Child and Youth Epidemiology Service; Note: Rate per 1,000 per year; Ethnicity is Level 1 Prioritised; RR: Rate Ratios are unadjusted. (Craig, et al., 2008))

Variable	Emergency Department Admissions INCLUDED			Emergency Department Admissions EXCLUDED		
	Rate	RR	95% CI	Rate	RR	95% CI
<b>NZ Deprivation Index Decile</b>						
1	34.84	1.00		29.79	1.00	
2	34.75	1.00	0.96-1.04	28.33	0.95	0.91-0.99
3	38.89	1.12	1.07-1.16	31.82	1.07	1.02-1.12
4	48.76	1.40	1.35-1.45	41.87	1.41	1.35-1.46
5	50.56	1.45	1.40-1.51	42.18	1.42	1.36-1.47
6	61.63	1.77	1.71-1.83	51.83	1.74	1.67-1.81
7	66.23	1.90	1.84-1.97	57.05	1.91	1.84-1.99
8	87.01	2.50	2.42-2.58	73.21	2.46	2.37-2.55
9	95.43	2.74	2.65-2.83	81.91	2.75	2.65-2.85
10	104.06	2.99	2.89-3.08	90.08	3.02	2.92-3.13
<b>NZ Deprivation Index Quintile</b>						
1	34.79	1.00		29.07	1.00	
2	43.85	1.26	1.23-1.30	36.87	1.27	1.23-1.31
3	56.17	1.61	1.57-1.66	47.07	1.62	1.57-1.67
4	77.04	2.21	2.16-2.27	65.46	2.25	2.19-2.31
5	100.18	2.88	2.81-2.95	86.40	2.97	2.90-3.05
<b>Ethnicity</b>						
European	50.78	1.00		44.26	1.00	
Māori	83.50	1.64	1.62-1.67	75.20	1.70	1.67-1.73
Pacific	129.17	2.54	2.50-2.59	99.55	2.25	2.21-2.29
Asian	55.78	1.10	1.07-1.13	39.62	0.89	0.87-0.92
<b>Gender</b>						
Female	60.27	1.00		51.33	1.00	
Male	70.20	1.16	1.15-1.18	59.56	1.16	1.14-1.18
<b>Rural / Urban</b>						
Urban	69.36	1.00		58.39	1.00	
Rural	39.95	0.58	0.56-0.59	37.43	0.64	0.63-0.66

## Bronchiolitis

Bronchiolitis is a viral chest infection of babies which causes wheezing, cough and difficulty breathing. Hospital rates for infants with bronchiolitis have risen steadily since the late 1980s and, although they have levelled out in recent years, they remain at dramatically higher levels than they were 25 years ago (Figure 12.2).<sup>86</sup>

A child living in areas with the greatest poverty

(from New Zealand deprivation decile 10) is 5.8 times more likely to be hospitalised in the first year of life with bronchiolitis than a child from the most well-resourced areas (New Zealand deprivation decile 1 (Craig, et al., 2008)). Furthermore there are large ethnic inequities with Pacific children having a 4.3 times increased risk and Maori children nearly 3 times increased risk of being admitted to hospital with bronchiolitis compared with European/Pakeha children.

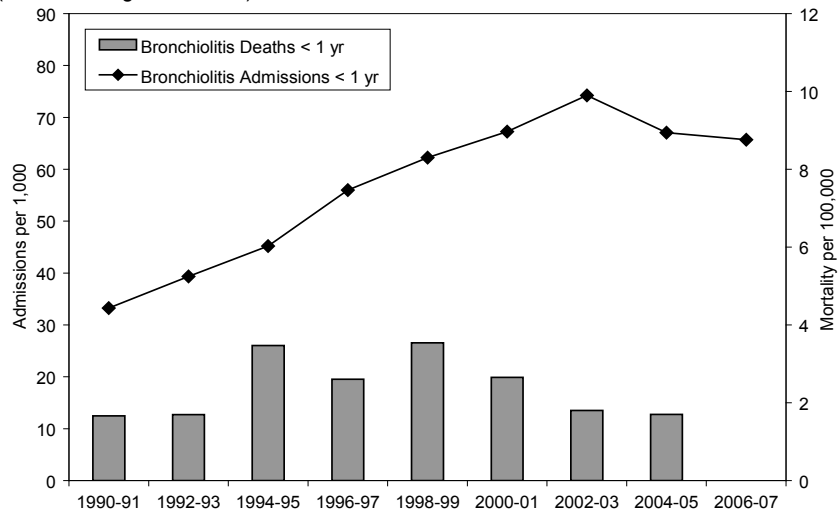
## Bronchiectasis

Bronchiectasis is a form of severe chronic lung damage that, if extensive – as it usually is in New Zealand children (Edwards, Asher, & Byrnes, 2003) – may reduce lung capacity for the rest of their life (Twiss, Stewart, & Byrnes, 2006). This may reduce the ability of the affected child and subsequently adult, to engage in normal work, and even death in young adulthood in the worst affected. Bronchiectasis is often caused by repeated respiratory tract infections or pneumonia in early childhood. New Zealand's rate is nine times higher than the UK and Finland – incredibly high for a developed country (Twiss, Metcalfe, Edwards, & Byrnes, 2005).

A child's risk of ending up with bronchiectasis is very strongly related to growing up in poverty, with a child in the greatest poverty (from NZ deprivation decile 10) having a 13 to 14 times increased risk of hospital admission with bronchiectasis than a child from the most well-resources areas (NZ deprivation decile 1) (Craig, et al., 2007; New Zealand Child and Youth Epidemiology Service, 2008). Furthermore there are also large inequities for Māori and Pacific children, with Pacific children having an 11 times increased risk and Maori nearly five times increased risk of being admitted to hospital with bronchiectasis compared with NZ Europeans. As with other poverty-related diseases, there was an increase in bronchiectasis admissions from the 1990s (Figure 12.3)<sup>87</sup> which has levelled off and perhaps fallen slightly in recent years. However, very high rates persist.

**Figure 12.2. Hospital Admissions (1990-2007) and Deaths (1990-2005) due to Bronchiolitis in New Zealand Infants <1 Year of Age**

(Source: Craig et al., 2008)



<sup>86</sup> Via Numerators-National Minimum Dataset & Mortality Collection; Denominator-Birth Registration Dataset via NZ Child and Youth Epidemiology Service. Mortality Data for 2006-07 unavailable

<sup>87</sup> Via Numerators-National Minimum Dataset and Mortality Collection; Denominator-Census via NZ Child and Youth Epidemiology Service. Note: Mortality data unavailable for 2006-07

## Rheumatic Fever

Acute rheumatic fever is an inflammatory reaction by the body which develops in some children in response to a bacterial throat infection cause by an organism called Group A streptococcus. It usually occurs in school-age children and can affect the brain, heart, joints and skin. One of its worst outcomes is permanent damage to the heart, including scarring and deformities of the heart valves.

While New Zealand's rheumatic fever rates have declined significantly during the past 30 years they have remained relatively unchanged since the 1990s and are about 13 times higher than those of most other developed countries (The Paediatric Society of New Zealand, 2010). Acute rheumatic fever admission rates are around 10/100,000 for children and youth aged 0 to 24 years (Craig, et al., 2007).

Rheumatic fever has a very strong link to growing up in poverty as shown in Table 12.2. A child who comes from a family in the poorest 20% of areas (NZ deprivation decile 9- 10) has a nearly 30 times increased likelihood of being admitted to hospital with rheumatic fever compared to a child from the most well-resourced 20% of areas (NZ deprivation decile 1–2).

**Table 12.2. Risk Factors for Hospital Admission due to Acute Rheumatic Fever in Children and Young People 0-24 Years, New Zealand 2003-2007** (Source: Numerator-National Minimum Dataset; Denominator-Census via NZ Child and Youth Epidemiology Service; Rate per 100,000 per year; Ethnicity is Level 1 Prioritised; RR: Rate Ratios are unadjusted (Craig et al., 2008))

Variable	Rate	RR	95% CI	Variable	Rate	RR	95% CI
NZ Deprivation Index Quintile				Prioritised Ethnicity			
1-2	1.26	1.00		European	1.15	1.00	
3-4	2.88	2.28	1.28-4.03	Māori	31.81	27.68	20.45-37.47
5-6	5.57	4.41	2.60-7.47	Pacific	61.76	53.74	39.52-73.07
7-8	9.50	7.52	4.54-12.46	Asian	0.88	0.77	0.33-1.79
9-10	37.04	29.32	18.11-47.46	Urban / Rural			
Gender				Urban	13.34	1.00	
Female	10.08	1.00		Rural	8.43	0.63	0.50-0.79
Male	15.22	1.51	1.32-1.73				

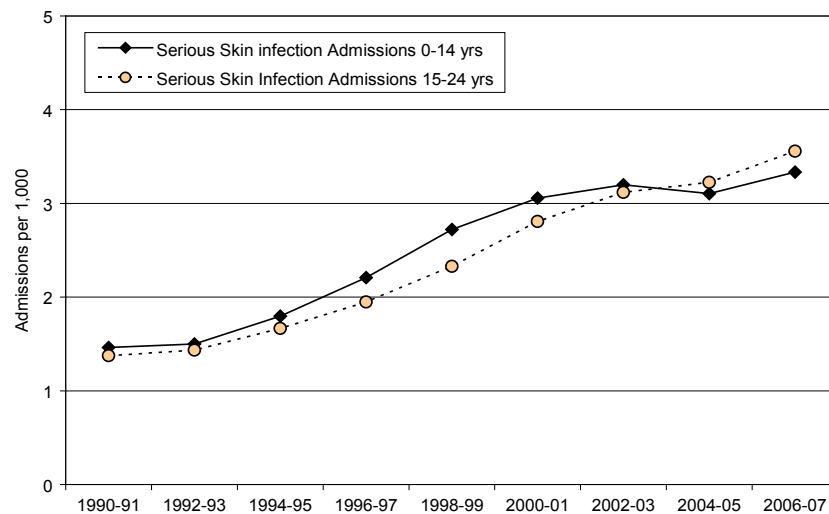
Furthermore, the ethnic disadvantages are enormous with a Maori child having a nearly 28 times increased risk and a Pacific child nearly 54 times increased risk compared with NZ European. New Zealand research has shown that rheumatic fever is strongly associated with household crowding and has called for action to reduce household crowding as an important factor towards reducing our alarming rates of rheumatic fever (Jaine, et al., 2011).

## Serious Skin Infections

Bacterial skin infections have become a common cause of hospital admissions for children, and continue to be much higher than rates 25 years ago. Hospital admissions for serious skin infections increased dramatically in the 1990s, and started to plateau in recent years as shown in Figure 12.4. A child living in areas with the greatest poverty (from NZ deprivation decile 10) is five times more likely to be admitted to hospital than a child from the most well-resourced areas (NZ deprivation decile 1) (Craig, et al., 2008).

The same ethnicity equity gap is seen with Maori children having nearly three times and Pacific children 4.5 times the risk of NZ European children the risk of being admitted to hospital. A recent publication using a more sensitive (but as specific) approach to defining hospital admission for serious skin infections has shown similar trends, with greatest risk

**Figure 12.4. Hospital Admissions for Serious Skin Infections in Children and Young People 0-24 Years, New Zealand 1990-2007** (Source: Numerator-National Minimum Dataset; Denominator-Census via NZ Child and Youth Epidemiology Service (Craig et al., 2008))



in boys, children under five, urban areas and northern regions, and high and disproportionately increasing rates in Māori and Pacific children, those living in the most deprived 20% of neighbourhoods (O'Sullivan, Baker, & Zhang, 2010).

There are likely to be several reasons why children from poor families are more likely to be hospitalised with severe skin infections. Overcrowding is likely to be a factor because crowded living conditions make transmission of infection easier, and poor hygiene may arise from less adequate washing facilities, as well as shared towels and bedding. Poor access to primary care for management of early skin infections such as from scabies, nits, infected bites and cuts may also contribute. Poor nutrition and stressful households both affect the immune system's ability to fight off infection.

### Injuries/Child abuse

*[A three-year-old girl] suffered severe head and abdominal injuries, allegedly inflicted by her step-grandfather and other members of her extended family, after reportedly being hung from a clothesline and spun in a clothes dryer. The toddler died in hospital after being taken off life support. Five people have been charged with assaulting the little girl. Additional charges may stem from her death. It is believed that she had been subjected to months of torture-like abuse. (Barriere, 2009).*

Child abuse is the dark side of New Zealand society. No amount of statistics can capture the horror for this child and other children with similar stories. Death rates are highest for children under two years of age (Ministry of Social Development, 2004b). During the 1990s New Zealand was ranked the third worst in the OECD for death rates from child abuse and the situation has improved little since then.

Although individual deaths continue to hit headlines and draw a lot of attention, it is a scandal and our shame that our very high rates of child abuse continue. Longitudinal studies suggest that 4% to 10% of all New Zealand children experience physical abuse, and 11% to 20% experience sexual abuse. (Ministry of Health, 1998). The long-term consequences may include psychological and physical damage, including depression, post-traumatic stress disorder, suicide and high-risk sexual

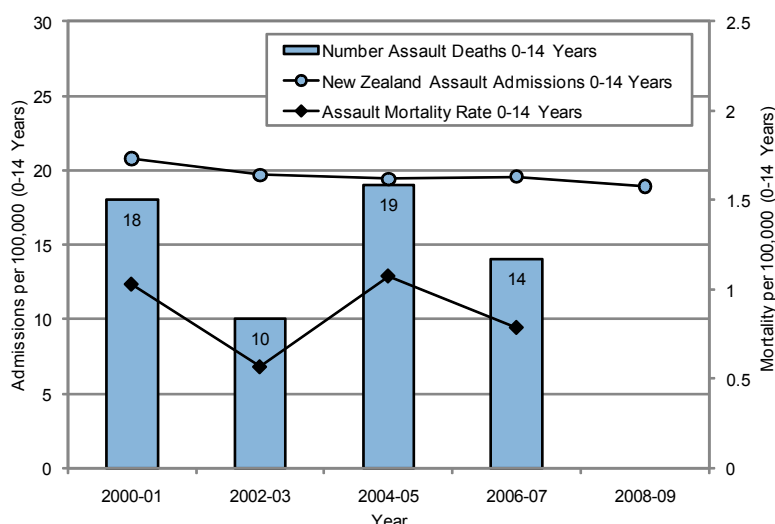


behaviour. (D. M. Fergusson, Boden, & Horwood, 2008; Kendall-Tackett, 2002). The NZCYES data shows there are approximately 10–19 deaths in children aged 0-14 every year due to non-accidental injury (Craig, et al., 2008).

Common factors associated with an increased risk of fatal child maltreatments by adults were examined in a government report (Ministry of Social Development, 2006a). They included poverty, a low-level education, being unemployed,

being young, poor mental health including alcohol or drug abuse, being the victim of family violence as a child, having a history of offending, and early offending.

**Figure 12.5 Hospital Admissions (2000-2009) and Deaths (2000-2007) due to Injuries Arising from the Assault, Neglect or Maltreatment of New Zealand Children 0-14 Years** (Source: <http://www.nzchildren.co.nz/>)



Rates of hospital admission for children because of assault, neglect or maltreatment declined during the early 1990s, but have remained relatively steady since 1996/1997 as shown in Figure 12.5.<sup>88</sup> Poverty plays an important role in these appalling statistics: the likelihood of assault, neglect or maltreatment is four times higher for a child from the poorest 20% of areas.

### Dental/Oral Health

Dental caries is a preventable disease that, despite free dental care in New Zealand for all children under 18 years, still has a significant impact on our nation’s most vulnerable children. Poor oral health leads to pain and infection, prevents children attending school, interrupts sleep, hinders concentration in classrooms and places economic strain on families who need to miss work and provide transport to dental appointments. In severe cases dental caries can lead to serious infection of the deep tissues or blood stream, and the child will need to be admitted for urgent hospital treatment.

There are significant regional and ethnic disparities in the distribution of the disease among our children. Only 44% of five-year-old children living in the Counties Manukau region were caries free in 2009 as opposed to 67% of five-year-olds in the Otago region (Ministry of Health, 2009b). Māori and Pacific children shoulder a disproportionate burden of disease with only 34% of Māori and 27% of Pacific five-year-olds caries free, significantly less than the national average of 55% of five-year-olds caries free (Ministry of Health, 2009b). Not only are Māori and Pacific children more likely to experience the disease, they experience greater severity of the disease, exhibiting more decayed, missing and filled teeth than their non-Māori and Pacific counterparts.

Preschoolers with severe dental needs often require a general anaesthetic for treatment, and can wait up to nine months after their initial contact with the school dental service for surgery. The majority of these children will require multiple courses of antibiotics to reduce infection while waiting. ‘Free

<sup>88</sup> Via NZ Child and Youth Epidemiology Service; Numerator Admissions: National Minimum Dataset, Numerator Mortality: National Mortality Collection; Denominator: Statistics NZ Estimated Resident Population. Note: Numbers are per 2-year period.



treatment' appears to be the ambulance at the bottom of the cliff for these children. Factors affecting access to this treatment, and the broader determinants of health affecting teeth and gums need attention.

Five more health issues for children in poverty

### **Nutrition**

Healthy food in sufficient quantities each day is essential for good health.<sup>89</sup> The Ministry of Health produces guidelines for the food and nutrition for New Zealand children (Ministry of Health: Well Child, 1997) which identify four food groups which children should eat every day: fruit and vegetables; milk and milk products; lean meats, fish and eggs; cereals and bread. Good nutrition is essential for many aspects of health and well-being to help the immune system deal with infections, to prevent iron deficiency and to prevent adult heart disease and cancers.

A recent study measured the cost of buying food for meal plans based on the Ministry of Health's guidelines for three age groups of children (Hopgood et al., 2010). The average annual cost of food from supermarkets for one child was per year, in 2007, \$1472 (3–5 year old), (\$1,996 (5–10 year old) \$4,411 (13–14 year old). Prices were about the same in most and least deprived areas. This is a high proportion of the child-related component of New Zealand government provisions for low socio-economic families, especially for older children, meaning that buying healthy food for teenagers in particular will be unaffordable for many low-income families. Since 2007 the cost of most food groups has risen substantially, on average 10% per year during 2010 (Statistics New Zealand, 2011).

### **Housing**

In New Zealand we have two main issues for housing – crowding and quality.<sup>90</sup> For centuries it has been known that adequate housing is necessary for health. During our meningococcal B epidemic, household crowding was shown to be the strongest risk factor for meningococcal disease – adding six adults to a household of two to three adults increased the rate of meningococcal disease nearly 11 times (Baker et al., 2000). This research was a turning point in New Zealand for starting to change housing policies for the better and stimulating more housing research.

Why have we have got such a housing problem in New Zealand? Around 300,000 New Zealand homes are wooden, un-insulated, damp and cold. Insulation for new housing became compulsory only in 1978. Cold damp homes can cause ill health, and cost a lot to heat. Heating costs can be unaffordable for low-income families, so they live in the cold and damp. Low-income families may double up to reduce costs of rent and heating, leading to household crowding.

Since 2001 some programmes which provide healthier housing have been implemented and evaluated, showing good health improvements. Housing research led from Wellington showed that in seven low-income areas in New Zealand insulating houses significantly improved self-rated health, reduced self-reported wheezing, days off school and work, and visits to general practitioners as well as showing a trend for fewer hospital admissions for respiratory conditions (Howden-Chapman et

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89 CPAG's recent publication, *Hunger for Learning* (2011), provides data on experiences of schools which have provided breakfast programmes. It identifies both the advantages of those programmes and the requirements to ensure that all children start the school day adequately nourished. That report was launched almost simultaneously with the findings from *Project Energize* (Rush et al., 2011), which operates on the motto: "Eat healthy! Be active! Have fun!" Both reports emphasised the positive results for children from learning about nutrition, experiencing good nutrition, especially breakfast, and participating in projects focused on it.

90 See Chapter 13 on housing.

al., 2007). A further study showed that, in seven low-income areas in New Zealand, insulation and non-polluting, more effective heating in the homes of children with asthma significantly reduced their symptoms, days off school and healthcare visits (Howden-Chapman et al., 2008).

In the Counties Manukau region of Auckland a Healthy Housing programme (involving house modifications, and health and social service assessments and linkages) which resulted in a 27% lower rate of housing-related potentially avoidable hospitalisations for 5 to 34 year olds. The largest decrease for the latter study was for respiratory conditions in children (G. Jackson et al., 2011b)

By 2008, less than half of old state houses had been retrofitted with insulation, with a commitment made to complete retrofitting for all state houses by 2013. For private accommodation, subsidies are available (such as EECA Energywise, Warm up Counties and Snug Homes), but there is no compulsion to improve the quality of private homes including rental accommodation where many children in poverty live.

### **Social and emotional needs**

While few would dispute the need for food and shelter, the importance of addressing the social and emotional needs of children receives less attention. Research over the last few decades has shown that this is of fundamental importance. From the time of their birth, babies and children need social interaction from caretakers who are able to respond to their needs with sensitivity. Very young babies will communicate with those around them through facial expressions, gestures and babbling. Parents and other adults who are sensitive to these cues will respond in kind leading to a reciprocal interchange which we now know is important in laying the foundations for later social and emotional competence through the development of the architecture of the brain.

Babies and young children who are raised in emotionally warm and supportive environments are more likely to develop into adolescents and adults who are empathic and socially competent, and who are able to regulate their own emotions (Shonkoff & Phillips, 2000). Those who grow up in environments where these emotional needs are not met, or where they are traumatised by angry and impatient responses, or physically abused, are at risk of a host of poor outcomes including poor later mental health, with increased depression, anxiety, substance abuse and self-harm, and also poorer physical health (Anda et al., 2006; Dube, Felitti, Giles, & Anda, 2003; Graham-Berman & Seng, 2005; Poulton, et al., 2002). This is not only costly to the individual, it is also costly to society (Knudsen, Heckman, & al., 2006).

Parents struggling to provide food and shelter are likely to be less emotionally available for their young children. The stress of being poor is associated with poorer mental health for the parents with increased anxiety and depression, and substance abuse, all of which impact adversely on the parent's ability to respond sensitively and appropriately to their young children. Stress and mental health problems make people more irritable, so that the chances of responding angrily to a crying baby or frustrated toddler are increased, with an increased risk of emotional and physical abuse of the child.

These interactions tend to compound as the child grows older, leading to an increase in conduct disorder, depression, anxiety, substance abuse and self-harm in adolescence and into adulthood.

There are effective interventions that can support parents to provide care that meets the emotional needs of very young children (Knudsen, et al., 2006) and to provide interventions for children and

families struggling with mental health problems. However, children are doubly disadvantaged in New Zealand. Not only do we have high rates of poverty that disadvantages children disproportionately, there is also disparity in mental health funding, so that children, who make up 28% of the population, receive 11% of the mental health funding (Wouldes, Merry, & Guy, 2011). Further, funding for children and adolescents has been focussed on adolescents for the last two decades (The Mental Health Commission, 2006). This is not only a failure to address the needs of the youngest and most vulnerable part of the population, but also makes little economic sense as it has been estimated that for each dollar spent early in life, there is a potential return of \$1.26 to \$17.00 for each dollar spent (Karoly, Kilburn, & al., 2005).

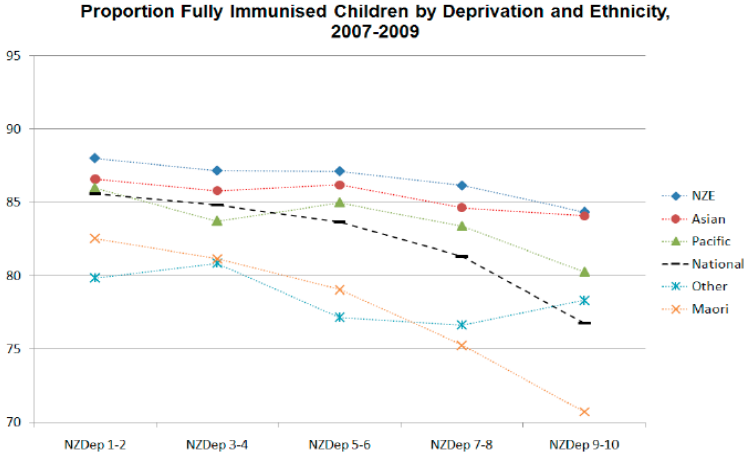
**Immunisation**

Immunisation against childhood diseases such as measles, whooping cough, meningitis and pneumonia has a powerful impact on child health, and is one of the most cost-effective healthcare services available. As UNICEF (2007) states, national immunisation rates serve as a measure of the comprehensiveness of preventative health services for children, and as a measure of the national commitment to primary health care for all children. An effective programme that leads to the best control of disease requires up to 95% immunisation uptake in a community, and children receiving their immunisations on time. New Zealand has historically had very low immunisation coverage rates and resultant high rates of diseases such as whooping cough. However, over the past few years improving immunisation coverage has been a focus: out of the six Ministry of Health national health targets, immunisation is the only child target. The result of increased recent attention is that immunisation coverage rates have improved from 72% of all New Zealand children being fully immunised at the age of two in 2005 to 88% fully immunised by 1 January 2011. While this is excellent progress, further efforts are required to increase coverage to the national target of 95% fully immunised.

Furthermore, equity gaps persist. Good progress has been made for Pacific children with now 91% fully immunised at two years of age, although the timeliness of delivery is still slower than for NZ European children. However, children from the poorest 20% areas (NZ deprivation decile 9–10) have rates currently around 84% and Māori children around 85% at age two (Forrest, Simpson, & Clancy, 1997). Recent research from the University of Auckland examined immunisation coverage levels among children at 12 months of age using National Immunisation Register data, shown in Figure 12.6 (Mueller, et al., 2010) demonstrating the significant equity gap: children being at the highest risk of not being immunised are both identified as Māori ethnicity and come from areas with the greatest poverty.

This research also examined a range of household characteristics by mapping the national immunisation register data to NZ census data. The risk factors that were the

**Figure 12.6. Proportion of Fully Immunized Children by Deprivation and Ethnicity and Ethnicity** (Mueller, Exeter, & Turner, 2010)



strongest associations with not getting immunised were poverty, Māori ethnicity, children coming from bigger households, having sole parents and parents with income from benefits (Mueller, et al., 2010). While improvements in immunisation coverage demonstrate that, with resources and attention, NZ is able to improve a child's health outcome, these data demonstrates that the greatest challenges remain for children with resource disadvantage.

### **Access to Primary Care**

Access to primary care is recognised as an important element in promoting child health and reducing disparities in health (Andrulis, 1998; Forrest, et al., 1997). Primary care forms the foundation of an effective health system, with provision of services such as immunizations, well child checks, and management of acute illnesses all important for children's long-term health. Ensuring a family has access to care whenever they need it allows for timely treatment and can avoid more costly care being required if an illness worsens. In New Zealand, two foundation documents on primary care highlight the importance of access, and of cost as a barrier to access (Ministry of Health, 2001b, 2005b). Financial barriers to access can lead to a delay in seeking care (Barnett, 2001) and can place families in the difficult position of balancing expenses such as doctors' fees and prescriptions with ongoing household costs.

Since 1996, New Zealand has attempted to provide a "Free Child Health Care Scheme" aimed at reducing primary care costs for children under the age of six. Some additional funding has been targeted towards this group of children, and to the provision of very low-cost services (Hodgson, 2007). While 80% of General Practices provide free visits for the under-sixes during weekday work hours, a significant gap exists for those seeking primary care outside of these hours. (Fancourt, Turner, Asher, & Dowell, 2010). After hours is an important time for the diagnosis and treatment of childhood illnesses because many families find it difficult to access care during working hours, with limited access to transport or parental employment constraints. Moreover, some conditions such as common respiratory problems (e.g. asthma, croup) naturally deteriorate overnight. The Ministry of Health reported that funding for afterhours care is a problem "more widespread than previously thought" and identified 119 locations where after-hours consultations for children under the age of six cost \$16 or more (20 of which charged over \$41) (Ministry of Health, 2007).

Thus the goal of universal free care remains unmet, and may be contributing towards New Zealand's poor child health statistics. While the provision of primary care remains complex, flexibility in funding arrangements and a variety of approaches that are community-specific can enable increased and consistent access to care for all children at all hours.

What needs to be done?

High rates of childhood diseases, injuries and low immunisation rates have complex origins and many influences. Positive family influences including 'good parenting' are a vital part of good child health, and this is strongly influenced by parental education. However the broader societal influences – the determinants of health are also vitally important.

*Individuals and communities need the support of the health system, health programmes, social services and local and national governments to create the enabling conditions for them to take effective health action.* ((Royal College of Physicians, 2010)

The Public Health Advisory Committee report (Public Health Advisory Committee, 2010a) sets a clear agenda for a way forward with the need for sustained investment in a long-term whole-of-government approach that invests in structures and policies for children. This report proposed four main areas of focus with a clear list of actions under each:

- Strengthen leadership to champion child health and well-being;
- Develop an effective whole-of-government approach for children;
- Establish an integrated approach to service delivery for children;
- Monitor child health and well-being using an agreed set of indicators.

Other countries have led the way on integrated structural and policy approaches and reaped the rewards. There are good models both internationally and locally. New Zealand's recent Whānau Ora initiative appears to have the intention to respond to many of these concerns. However, there is a requirement for a greater political commitment, whole-of-government attention, better integrated policies and increased resourcing both at national and local levels. Service-delivery solutions need time, patience, resources and ongoing attention to work out, make mistakes and review. Solutions are likely to be harder, more long term and more expensive than what is often politically tolerated, but they are feasible.

#### Recommendations

- The first priority is to create free access to primary health care services for children under six years: all days of the week and for after-hours services;
- Increase the governments' strategic and financial commitment to children's health and child mental health, as a much larger percentage of the national health budget;
- The government to respond to the concerns and recommendations from the 2010 PHAC report;
- Create a national health target that focuses on reducing poverty-related admissions to hospital for children;
- Urgently develop a national strategy to focus on under-nutrition in children. Strategies could include making breakfast available to all in decile 1 and 2 schools;
- Monitor mental health and substance use, and institute a national programme for screening for depression (such as the TaskForce for Prevention in USA).

# Chapter 13. Housing poverty and children

Alan Johnson<sup>91</sup>

## Introduction

Outside of the five-yearly censuses, New Zealand is bereft of data on the housing position of children. This information gap exists because there is no other officially collected information to determine or estimate who is living where and with whom. We know quite accurately how many children there are in New Zealand and not so accurately where they go to school or pre-school, but between censuses we have no reliable way of knowing what sort of house they live in and how many people share their homes. The cancellation of the 2011 Census on account of the second Christchurch earthquake of course compounds this information gap.

This chapter attempts to assess the extent of housing-related poverty in New Zealand, especially as this poverty affects children and their families. Much of the available data on children and housing is taken from the 2006 Census, but, given the extent of mobility of households, especially poor and young households, it would be unwise to rely on this data to paint an accurate picture of children's housing position today. The 2006 Census does, however, provide a flavour of how housing fortunes or misfortunes are distributed amongst New Zealand families and children. There is little reason to suggest that this distribution has changed much, at least in relative terms, since 2006. For this reason data from the 2006 Census is presented here.

This chapter also reviews other, more recent data, which provides some possible insights into the housing position of New Zealand's poorest households, most of which have an over-abundance of children. As we shall see below, housing is a significant contributor to the financial stress experienced by low-income households, so it seems useful to consider data on recent changes in such things as housing affordability as an indicator of what is happening to these households. Some attention is also paid here to problems of residential mobility and of the resulting transience of children through schools.

The final part of this chapter considers five key factors which have or are likely to have a major impact on the housing future which the poorest children in New Zealand are likely to face over the next one or two decades.

What does the 2006 Census tell us about children's housing?

The 2006 Census identified the following outcomes for children's housing:

1. While 33% of all households rent their homes, children are over-represented in tenant households with 39% (James & Saville-Smith, 2010, p. 32) of all children living in tenant households. Tenant households move more frequently than owner-occupiers, thus their children are more likely to shift frequently. This shifting around disrupts schooling especially for a small number of families which might be described as itinerant given the frequency of their relocation.
2. Perhaps as many as 80,000 children aged 14 or under were living in temporary or makeshift housing. Amongst children aged younger than 10 years, just over 9% were reported as living in such accommodation (James & Saville-Smith, 2010, p. 42).

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3. Ten percent of people overall were living in houses which, according to accepted occupancy standards,<sup>92</sup> required at least one more bedroom. This level of overcrowding is about the same as that reported in the 2001 Census but is less than back in 1986. In 2006, however, children were more likely to live in overcrowded houses than adults and especially older adults. The 2006 Census reports that 17% of children aged under 10 years and 15% of children aged 10 to 14 years lived in overcrowded housing.
4. More detailed analysis of this overcrowding data shows that overcrowding was particularly concentrated in a small proportion of neighbourhoods and communities. For example the poorest 10% of census area units<sup>93</sup> in Auckland (mostly in South Auckland) comprised 9.7% of that region's population, 14.2% of its children, 35% of the region's overcrowded households, and 37% of Auckland children living in overcrowded households. These same Auckland neighbourhoods comprised just over 3% of New Zealand's population and just under 5% of its children but over 14% of the country's crowded houses and nearly 15% of all children living in crowded houses.

### Housing costs and poverty

Housing costs aggravate the poverty experienced by low-income households and especially low-income households with children. Table 13.1 below summarises data from recent analysis of Statistics New Zealand's Household Economic Survey (HES) (B Perry, 2010, pp. 86-87, Table F.5 and F.6).

**Table 13.1. Proportion of children below various poverty thresholds – before & after housing costs**

Threshold type	Constant value		Relative to contemporary median	
	50% 2007 median	60% 2007 median	50% contemporary median	60% contemporary median
<b>BEFORE HOUSING COSTS</b>				
2004	16%	30%	14%	26%
2007	13%	20%	13%	20%
2009	8%	14%	11%	19%
<b>AFTER HOUSING COSTS</b>				
2004	22%	31%	19%	28%
2007	10%	22%	16%	22%
2009	10%	22%	18%	25%

Although this analysis makes a fairly rudimentary allowance for housing costs in assessing the impact of housing costs on poverty rates,<sup>94</sup> the overall impact of allowing for housing costs is that poverty rates increase more or less regardless of the poverty indicator or threshold used. For example, once housing costs are allowed for, a commonly used 60% of constant value median equivalent household income for 2009 shows an increase of 8% in child poverty rates. This increase represents over 80,000 children.

<sup>92</sup> This standard is the Canadian Crowding Index see Ministry of Social Development (2010b, p. 70).

<sup>93</sup> The poorest 10% of census area units has been identified here by those CAU's with the highest rate of benefit dependency. Data for this analysis was supplied as a customized data set by Statistics New Zealand and is taken from raw data from the 2006 Census.

<sup>94</sup> For example the allowance made for housing is simply to deduct 25% of the before housing cost household income as an allowance for housing (see B Perry, 2010, pp. 18-19, 30). Housing costs are often considerably higher than 25% of household income especially for low-income households.



Not surprisingly tenant households are generally younger and poorer than owner-occupier households and the extent of this difference is well demonstrated in Table 13.2 below which is taken directly from Perry (2010, p. 97, Table G5A).

**Table 13.2. Proportion of individuals under 65 in low-income households\* by housing tenure**

	1992	1994	1996	1998	2001	2004	2007	2009
Owned or FT without mortgage	14%	12%	13%	8%	12%	12%	12%	6%
Owned or FT with mortgage	30%	30%	27%	21%	24%	16%	14%	11%
Rented – private	39%	46%	41%	44%	40%	38%	29%	27%
Rented – HNZA or local authority	68%	71%	71%	66%	56%	51%	36%	39%
TOTAL ( all under 65)	30%	31%	28%	26%	26%	24%	18%	15%

\* Threshold used is after housing costs 60% of 2007 medium equivalent household income.

### Recent changes in housing affordability

There are two ways of measuring housing affordability: by how much housing costs to buy or to rent, and by how much households pay for their housing. The two approaches will not always produce similar results, partly because the rental and ownership markets work to different dynamics as shown below; and partly because the cost and affordability of housing is mediated by the way households form and by changes in these formed households' incomes.

Some estimates of housing affordability in terms of the proportion of household income spent on housing are made from data collected from the HES, but given the sample sizes in this survey, and the often small numbers of respondents in some sub-categories (for example ethnicities and types of household), the results often have wide margins of error (Perry, 2010, p. 23).

**Table 13.3. Proportion of individuals in households with housing cost OTIs greater than 30%**

(Source: Perry, 2010, p. 50, Table C.3)

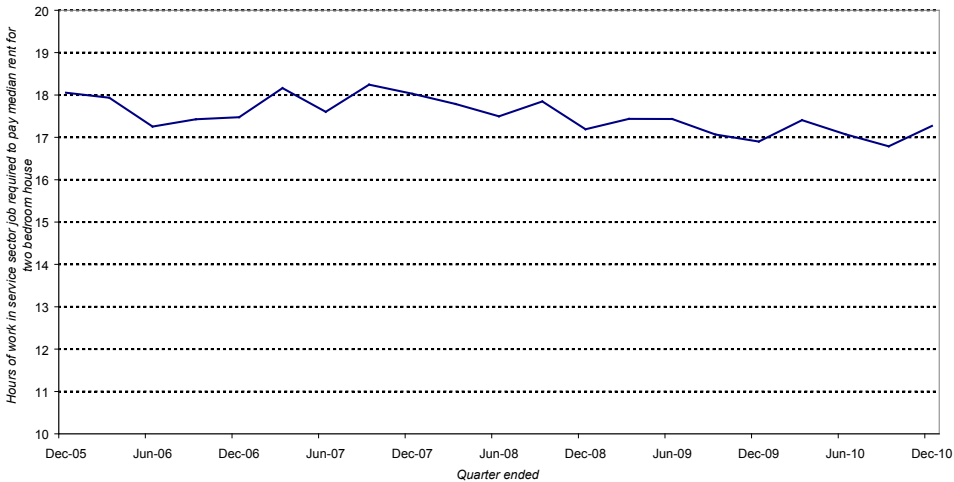
AGE GROUP						
	0-17	18-24	25-44	45-64	65+	ALL
1988	12%	12%	15%	5%	3%	11%
1990	16%	16%	18%	7%	2%	14%
1992	22%	21%	24%	8%	3%	18%
1994	27%	22%	28%	10%	5%	22%
1996	32%	24%	28%	14%	6%	24%
1998	33%	26%	31%	14%	7%	26%
2001	32%	29%	28%	16%	7%	25%
2004	26%	28%	25%	15%	6%	22%
2007	32%	29%	33%	19%	9%	27%
2009	37%	24%	35%	21%	8%	28%

This potential for error notwithstanding, Table 13.3 above estimates the proportion of individuals living in households where housing outgoings to incomes (OTIs) exceed 30% (that is, housing costs are 30% or more of household income). This OTI over 30% is used as an indicator of the proportion

of households experiencing financial stress on account of housing costs. Table 3 provides this data for various age groups and this data shows how children (and their parents or caregivers within the 25–44 age group) are more likely than other age groups to be living in households experiencing housing-related financial stress. Table 13.3 also shows how this stress has grown since 2004.

On first appearances the data in Table 13.3 is not entirely consistent with more direct comparisons of housing affordability changes which are measured either by rents and house prices, or by a comparison of these with incomes. For example, Figure 13.1 below records relative changes in wages in the service sector with the average rent paid across New Zealand for a two-bedroom house. The relativity in this graph is expressed as a ratio of the number of hours at the mean wage (accommodation, café and restaurant sectors) that it would take to pay the mean rent for a two-bedroom house. The trend over a period of five years is that there is a close association between wages and rents, in other words, rents are not getting more expensive in relation to wages.

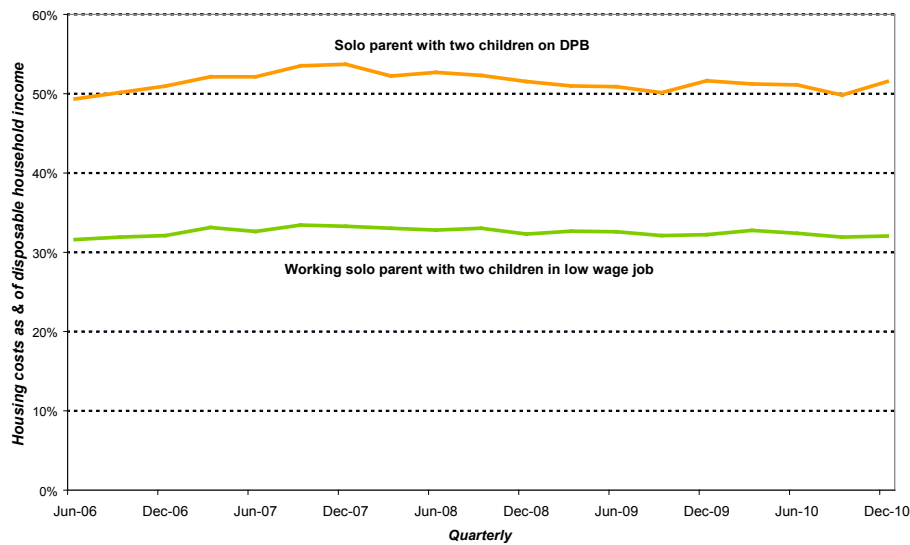
**Figure 13.1. Rent affordability 2005-2010<sup>95</sup>** (hours of work at average wage required to pay rent)



This data on average wages and rents is combined with estimates of benefit and Working for Families (WFF) entitlements to estimate the housing outgoings to incomes for two hypothetical households.<sup>96</sup> The first household is a solo parent working fulltime in the service sector (at the average wage) with two children aged under 13 who receives full entitlements to WFF tax credits plus the Accommodation Supplement. The second is a solo parent with two children aged under 13 in receipt of the Domestic Purposes Benefit (DPB) and WFF and Accommodation Supplement entitlements. A comparison of their relative positions is shown in Figure 13.2.

<sup>95</sup> Data sources to generate this ratio are the mean hourly wage for Accommodation, Café and Restaurant sector workers from the Quarterly Employment Survey from Statistics New Zealand and mean rent for a two-bedroom house as published by the Department of Building and Housing from its Tenancy Bond service.  
<sup>96</sup> This data covers the period since the introduction of the WFF packages in March 2006.

**Figure 13.2. Housing outgoings to incomes for two solo-parent households**



Clearly, because of the additional support offered through the In-Work Tax credit, the working household has a significantly lower housing outgoings to income percentage than the household reliant entirely on the DPB and other assistance. What is noticeable with the data graphed on Figure 13.2 is how constant these two housing cost-to-household income ratios have been over time. Housing on the basis of this data does not appear to be getting more expensive although it is already so expensive for a solo parent on a DPB that it is unlikely he or she could afford it all.

Noticeable about the data in Figure 13.2 is that even the better-off working households would still fall within the over 30% of household income threshold adopted in Table 13.4. The fact that a household which is working full-time in a low-paid job and which is receiving three income top-ups from government can still be living with housing-related financial stress points to the vulnerability of many households to this threat.

This vulnerability might explain the apparent rise in housing-related financial stress as demonstrated in Table 13.4, which contradicts the data offered in Figures 13.1 and 13.2 which show no discernible trend in rented housing becoming less affordable. Many households, especially those with children, are just on the margin of coping with housing costs. Small events such as loss of a part-time job or overtime hours can push them into problems of housing-related financial stress. Such potential and actual events may explain the increasing housing-related financial stress reported in Table 13.4 against the background of quite stable rent-to-income ratios shown in Figures 13.1 and 13.2.

## Children and residential mobility

The relationship between housing stress and residential mobility is not clearly understood although it is apparent that tenants move more frequently than owner-occupiers;<sup>97</sup> that households with children are slightly more mobile than households with no children;<sup>98</sup> and poorer households with children are more mobile than non-poor households with children.<sup>99</sup>

Outside of another census the extent and nature of any change in residential mobility patterns of New Zealand households is difficult to guess. There is, however, some evidence to suggest that the mobility of tenant households is slowing while the slow-down in house sales as a result of the global recession would suggest a decline in mobility amongst owner-occupiers as well (Hargreaves, 2011).

There is mixed evidence of the impact of residential mobility on children. Bull and Gilbert (2007) for example found no statistically significant difference in either the rate of attendance at school or the academic achievement of students who were highly mobile. Other commentators, however, suggest that a general pattern is that very mobile students have poorer social and emotional well-being and are less successful at school for a variety of reasons some of which relate to how schools cope with inducting new students and some of which are to do with students fitting in and finding new friends (Auld, 2006; A. Lee, 2002).

There is some clearer New Zealand-based evidence of the health effects of high mobility and transience of children. These effects included the perhaps predictable higher levels of emotional and behavioural problems associated with shifting around often but also include such things as increased rates of teenage depression, greater risk of teenage pregnancy and earlier initiation into illicit drug use (Jelleyman & Spencer, 2008).

## What of the future for housing?

It is difficult to be optimistic about the future for affordable housing in New Zealand given a handful of background factors or issues which together amount to a generational challenge for younger New Zealanders to overcome over the next one or two decades. It remains to be seen whether or not they choose to accept this challenge, or simply move to Australia and leave our current housing legacy for mum and dad to live with.

This housing legacy has at least five dimensions. They are seldom mentioned together but they all need to be tabled for public debate around their combined impact on future housing provision for low-income New Zealanders. These five dimensions are as follows:

### **A housing bubble which has not burst**

Despite many suggestions that New Zealand housing is overpriced and predictions that we will see a price adjustment sometime soon, this day of reckoning has not come even as the world goes

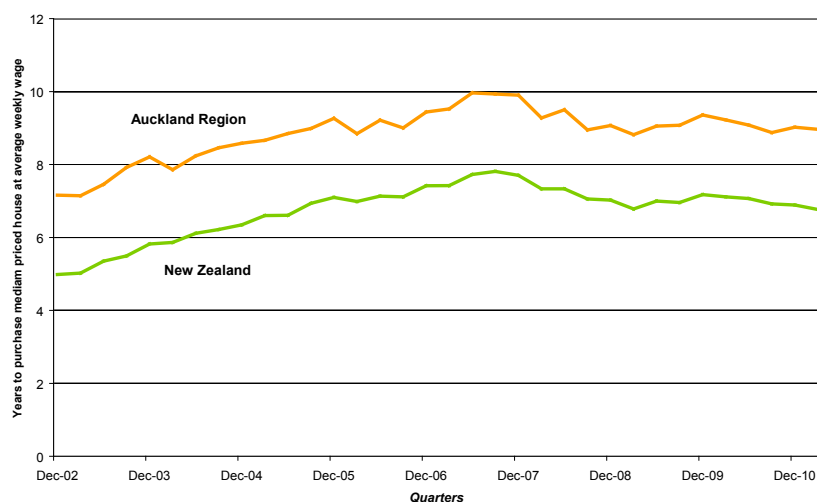
97 In the Department of Building and Housing's 2005/08 Statement of Intent (2005) it is stated: *Tenancies have a high turnover, with the average duration of all tenancies that ended in the year ending 31 December 2002 being less than 15 months. More than half of all tenancies in that year ended within 10 months, 33% within 6 months and 13% within 3 months. Māori households tend to be over-represented in areas with a higher proportion of short-term tenancies.*

98 The 2006 Census shows that children generally have slightly higher rates of residential mobility than other age groups within the population: 37% of children aged five to 14 were living at the same residence they were in five years ago compared to 40% of the total population. Source Statistics New Zealand table builder website at [http://www.stats.govt.nz/tools\\_and\\_services/tools/TableBuilder/2006-census-pop-dwellings-tables.aspx](http://www.stats.govt.nz/tools_and_services/tools/TableBuilder/2006-census-pop-dwellings-tables.aspx)

99 Lee's (2002) report of a 1999 study of students at high- and low-decile intermediate schools found that the percentage of students from decile 1 schools who had attended at least three schools in one year during their school career ranged from 4.4% to 17.2% while the proportion of such students from decile 9 and 10 schools varied between 0.4% and 5.4%.

through a major recession. Figure 13.3 below illustrates this point. While house prices relative to household incomes have declined since the heady days of late 2007 before the recession, they have not returned to levels of a decade or so ago. In terms of affordability this might be as good as it gets for new home buyers. Aucklanders may have to get used to having to spend nine years of an average salary on a house, while other New Zealanders may always face the prospect of medium house prices which are six to seven years of an average wage or salary income. The worrying thing, especially for Auckland, is that even at these prices few people are interested in building new houses for a still-growing population.

**Figure 13.3. Years to purchase median-priced house with average weekly wage<sup>100</sup>**



### A legacy of housing-related debt

At the end of 2000, housing-related debt was \$66 billion or 56% of GDP. At the end of 2010 New Zealanders owed \$171 billion in housing-related debt, equivalent to 88% of gross domestic product. Clearly there has been a structural shift in how New Zealanders choose to hold assets as, in 2000, 83% of New Zealanders' financial assets were tied up in housing whereas by the end of 2010 this figure had risen to 97%.<sup>101</sup> The repayment of this debt over the next two decades will not only place a significant burden on the economy, but comes at a period when baby-boomers may be cashing up their property assets for retirement spending. Such a sell-down will be balanced by the threat of a general decline in property markets which will, of course, diminish values and realisable wealth on one side of the ledger, while on the other side making housing more affordable for a younger generation.

If such a sell-down does not occur and if the baby-boomers go to the grave or crematorium with their overpriced housing assets, the following generations will inherit the debt as well as the asset. It is possible that the New Zealand economy could grow into its housing debt, so debt levels remain fairly constant in nominal terms and house prices decline in real terms, hence housing debt as a proportion of GDP declines over the next decade or two. Such a scenario will see a fairly painless adjustment over an extended period, but may well see the construction of new housing remain subdued, perhaps leading to unmet housing need for lower-income households.

<sup>100</sup> House price data is based on quarterly medians taken from the Real Estate of New Zealand's website at [https://www.reinz.co.nz/reinz/public/market-information/market-information\\_home.cfm](https://www.reinz.co.nz/reinz/public/market-information/market-information_home.cfm).

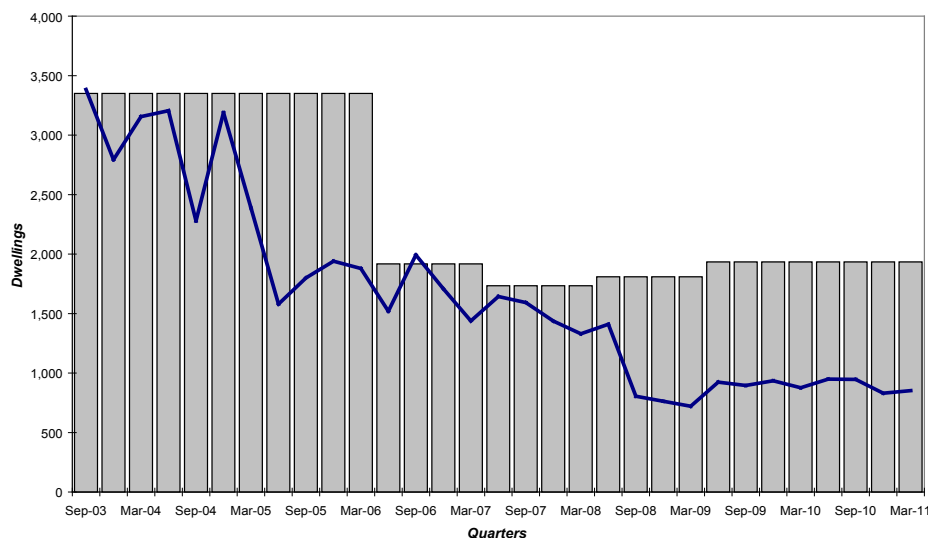
<sup>101</sup> Data from Reserve Bank of New Zealand website at <http://www.rbnz.govt.nz/statistics/az/2989613.html> and specifically Table C6 Total Household Claims and Households Financial Assets and Liabilities.

## A looming housing shortage in Auckland

Recent population growth in Auckland, and Statistics New Zealand's sub-national population forecasts both suggest that around half of New Zealand's population growth will occur in Auckland. However, over the past five years Auckland's share of new house building has been just under one quarter of the national total. Since late 2008 the gap between consents for new dwellings in Auckland and the number of additional dwellings required to cater for the region's population growth<sup>102</sup> has been around 1,000 per quarter.

The historical trend of new housing demand and supply in Auckland is provided in Figure 13.4. The data for this figure is from Statistics New Zealand's sub-national population estimates and forecasts, and from that agency's new building consents reports. This data indicates that the shortage of housing in Auckland over the past three years is over 11,000 dwellings. This deficit is more than the wildest estimates of the number of homes destroyed in the Christchurch earthquakes, yet Auckland's housing problems barely rate a mention in media comment or in the Government's priorities. Perhaps even more alarming is a Government agency's forecast that Auckland could be short 90,000 houses over the next 20 years (Department of Building and Housing, 2010, pp. 66-67, Table 64.62).

**Figure 13.4. New housing supply and demand in Auckland Region**



## The Christchurch Earthquake

The Prime Minister has made unofficial estimates that as many as 10,000 houses will need to be rebuilt as a consequence of the Christchurch earthquake (Watkins, 2011), although these estimates have subsequently proved to be little more than speculative (Interest.co.nz, 2011). Despite official denials that this is the number of homes destroyed in the earthquake, there have to date been no official estimates of what this figure actually is. A preliminary estimate is that 5,100 houses will need to be demolished while the fate of a further 10,500 houses in the so-called 'orange zone' is still to be decided (NZPA, 2011a).

<sup>102</sup> This estimate of new dwellings required is based on Statistics New Zealand's sub-national population estimates and forecasts and on the 2006 Census' reported average household size for Auckland. This average household size was just under three people per house and estimates and forecasts of Auckland population suggest annual growth of between 21,000 and 23,000 people. In other words Auckland requires an additional 7,000 to 7,600 houses per year just to maintain household sizes at the reported 2006 average.

Treasury has made broad estimates that the cost of the Christchurch earthquakes could be in the order of \$15 billion, of which around \$9 billion is in damage to residential properties. It also estimates that the earthquakes will reduce economic growth by around 1.5% of GDP and that as the recovery gets under way there will be price pressures in the construction sector and elsewhere (The Treasury, 2011). The Minister of Finance, in a speech to the Wellington Employers Chamber of Commerce in April 2011 (Bill English, 2011), estimated that the earthquake will cost Government \$8.5 billion directly including \$3 billion in lost tax revenue and \$5.5 billion to replace damaged government-owned buildings such as schools and hospitals, and to support the Earthquake Commission. Mr English acknowledges in this speech that these costs are not unmanageable, but will delay progress in other areas such as deficit and debt reduction.

### **Leaky buildings**

It appears that the best and most recent estimate of the extent and cost of leaky buildings is that done by PriceWaterhouse Cooper (2009). This report suggests that the number of buildings likely to suffer weathertightness failures could be as high as 110,000, and that there is an expert consensus of around 42,000 such failures. They estimate the costs of this number of failures at \$11.3 billion (in 2008\$s). They also expect the building owners to suffer 69% of this cost and local government to face 25% of the cost or perhaps as much as \$3 billion. The builders responsible for the failing buildings, and the Government which was responsible for building regulation reforms which allowed the now discredited building practices, face 4% and 2% of the costs respectively.

Government, through the Department of Building and Housing, is offering owners of leaky buildings a financial assistance package which will see it and local councils each contributing 25% of the repair costs. This assistance excludes the transaction costs prior to making a claim and covers only buildings found to be leaking up to 10 years after their construction. It seems likely that owners will bear more than half of the total costs of the leaky homes fiasco even with this financial assistance from Government.

Of some concern is how the building owners will meet their share of these costs, however much these are. It is possible that many of these costs, as well as the underlying problems, are yet to be discovered and so may fall outside the 10-year liability period which covers local government and builders' liabilities. It seems likely that as these buildings fail they will quickly lose value and that this failure and loss of value will blight whole building developments and perhaps whole communities. Until these buildings are demolished or completely abandoned, someone will have the misfortune of living in them. If housing markets work as they can be expected to, the people living in leaky and decaying buildings will be the poor, including poor children.

### Conclusions

Perhaps the most disappointing thing right now is that there does not appear to be within our national consciousness either the insight to see what these problems mean for our children, or the courage to accept that children and their housing require greater priority from us all. The five problems in housing have been identified as: a housing bubble which has not burst; and a consequent legacy of housing related debt; a looming housing shortage in Auckland; the Christchurch Earthquake; and leaky buildings.

The failure to provide poorer New Zealand children with adequate and affordable housing looms as the single biggest social failure of both recent Governments and of those set to take power



over the next decade. The present market and policy settings offer little if any hope for a change to our present housing pathway. 'Children', and 'housing for low-income families' do not register as important enough priorities to demand national attention. Furthermore, the central role which inadequate housing plays in poor health and education outcomes for children is well understood, but this link is not being honestly acknowledged by those in Government who profess concern for such poor outcomes.

The challenges we face in ensuring that every young New Zealander lives in a decent quality house are enormous and cannot be under-estimated. The problems we are now facing in housing were at least 10 years in their making. This suggests that we can only expect to make progress over a similar or longer period. There are seldom quick and cheap answers to long-term structural problems.

### Recommendations

- That research be undertaken by NGOs, universities and government agencies to more closely establish the relationship between inadequate housing and the poor health and educational outcomes being achieved for many New Zealand children;
- The Government develop and fund a national housing plan to address the emerging housing shortages identified by the Department of Building.

# Chapter 14. The impact of social hazards on children

Julie Timmins,<sup>103</sup> M. Claire Dale<sup>104</sup> and Donna Wynd<sup>105</sup>

## Introduction<sup>106</sup>

Legal social hazards, including gambling, tobacco, alcohol, and high-priced debt, are strongly associated with family poverty. Social hazards impact most seriously on the lives of people whose financial situation limits the choices they can make to avoid or escape them. It is ironic that, for people in hardship, social hazards present an opportunity (albeit usually misguided) to improve their situation (gambling and using loan sharks), or to ameliorate the stress in their lives.

Equally, children and adolescents living in households affected by social hazards can adopt unhealthy behaviours to cope with the worries they experience. The impact on family finances of social hazards, especially where addiction is present, is well-documented, and increasingly the public health burden of these hazards for individuals and the community is being recognized. For example, the recent report from the Prime Minister's Chief Science Advisor, Sir Peter Gluckman, "*Improving the Transition: Reducing Social and Psychological Morbidity during Adolescence*", recognized the need for policies to consider the potential impacts on adolescent well-being, even when the policies are not obviously related to that group (Gluckman & Hayne, 2011, p. 18).

Social hazards play a considerable role in entrenching family poverty. It is not enough for governments to limit the harm from social hazards; they must act decisively with policies which actively seek to protect children. Key to the proliferation of social hazards in New Zealand has been lifting restrictions on access, for example the liberalisation of liquor licensing laws. Communities have responded by demanding greater input into the accessibility of social hazards in their neighbourhoods, demands only reluctantly being met by the legislature and local authorities.

If children, the most vulnerable members of our society, are to be protected from the effects of social hazards such as gambling, tobacco, alcohol, and high-priced debt, the government must make greater efforts to support families and communities, and reduce access to these hazards.

In general, industry self-regulation has been the preferred method of regulation for governments who are themselves 'addicted' to the tax revenue from social hazards. Yet industry self-regulation has proved inadequate, and the operations of industry players have proved difficult to regulate. The Australian Productivity Commission (APC) commented on the difficulties faced in executing policy in this area (2011):

*Opposition to genuinely 'good' policy — policy that makes the community as a whole better off — is actually quite common. It can be the result of ignorance or interests. The former is an easier obstacle to overcome than the latter, since it will generally suffice to be able to explain*

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105 Donna Wynd is a spokesperson and research and policy analyst for Child Poverty Action Group.

106 Particular thanks to George Thomson, Senior Research Fellow, Department of Public Health, Te Tari Hauora Tūmatanui, University of Otago, Wellington; Professor Doug Sellman, Director of the National Addiction Centre at the University of Otago, Christchurch and media spokesperson for Alcohol Action New Zealand; and Hannah Thorne, Research Officer, Gambling and Addictions Research Centre, Auckland University of Technology, for their contributions to this chapter.

*or demonstrate the benefits of the proposed policy action. Disarming the opposition of special interests is a lot harder. This is because evidence of public benefit will rarely ameliorate the reason for their opposition — namely, expectation of private loss or disadvantage.*

The APC found social hazards in particular are sectors where the implementation of good social policy is extremely difficult due to entrenched vested interests. The New Zealand experience is showing that the longer those vested interests are unchallenged at the level of national policy, the more difficult they are to overcome. Lobbying by gambling trusts, a faux grassroots campaign opposing legislation aimed at banning cigarette displays, and a timid official response to the Law Commission's report on alcohol in New Zealand all point to the difficulty in reining in social hazards once they are established in the community.

Focus in this chapter is on the legal social hazards of tobacco, alcohol, gambling and loan sharking practices.

## Tobacco

*Tobacco is the only legally available consumer product which kills people when used entirely as intended* (Walton, Barondess, & Lock, 1994).

Of all the social hazards considered in this chapter, smoking has the most direct impact on the physical health of children and their caregivers. It is estimated that 4,500 to 5,000 deaths per year in New Zealand can be attributed to tobacco use (Ministry of Health, 2009c). Children and babies are unable to escape from exposure to tobacco, either in the womb or when they are reliant on the care of their families. Children must be protected from harm by policies that move to eliminate tobacco from society.

In New Zealand, there has been considerable progress in controlling tobacco, beginning with the Smokefree Environments Act in 1990. Other significant initiatives include the end of tobacco sponsorship of events; the launch of Quitline, and of Aukati Kai Paipa, the Māori smoking cessation programme; and the mandatory graphic warnings on cigarette packets. The most effective deterrent to smoking is an increase in price: recent tax increases on tobacco in 2010 and 2011 have led to significant decrease in tobacco sales (Johnston, 2011).<sup>107</sup>



At the time of writing, the Smoke-free Environments (Controls and Enforcement) Amendment Act has been passed into law. This bans retail tobacco displays and increases enforcement of restrictions on the sale of tobacco. Yet it is clear a great deal more needs to be done if New Zealand is to be smoke-free by 2025 (Maori Affairs Select Committee, 2010).

## Impact on children

### **Foetal and infant health**

Smoking is the biggest preventable cause of foetal and infant ill health including low birth weight, and death.

- Smoking during pregnancy is associated with a 25% increased risk of miscarriage;

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<sup>107</sup> This creates a unfortunate dilemma around the imposition of further hardship on low-income people addicted to tobacco as recent research published by the Prime Minister's Science Advisor implicates economic hardship and its adherent stresses in the adoption of smoking behaviour (Gluckman & Hayne, 2011, Chapter 18).

- On average smokers have babies that are 200–250g lighter than non-smokers;
- Low birth rate is associated with increased risk of illness and death in infancy;
- Smoking during pregnancy increases the child's risk of pneumonia, asthma and glue ear (Tuohy, 2008);
- Babies of smoke-free fathers are a safer weight at birth and have a lower risk of SIDS (Ministry of Health, 2000).

In New Zealand during 2003–2007, 328 infants (aged 4 weeks to 52 weeks) died as the result of SUDI Sudden Unexpected Death in Infancy – 75% of the mothers of these infants were known to have smoked tobacco (Child and Youth Mortality Review Committee Te Rōpū Arotake Auau Mate o te Hunga Tamariki Taiohi, 2009).

### **Effect of second-hand smoke**

The effect of passive smoking or second-hand smoke (SHS) on children's health is well researched and documented, yet public policy has been slow to act on that knowledge. In the US, the Surgeon General has concluded that there is no risk-free level of SHS exposure. Children are much more vulnerable than adults to the damage from SHS as their bodies are still developing. Babies are particularly vulnerable as they are held close and often receive the full impact of exhaled smoke. Second-hand smoke is known to be a causal factor in:

- Middle ear infection (including glue ear);
- Respiratory illnesses (croup, bronchitis, bronchiolitis and pneumonia);
- The onset of asthma and worsening of asthmatic symptoms (Environmental Protection Agency, 1993).

Research has shown that a reduction in SHS in American homes was associated with fewer cases of middle ear infection. It clearly shows that if parents can stop smoking at home their children are far less likely to suffer from this disease and its effects (Alpert, Behm, Connolly, & Kabir, 2011).

The relationship between SHS and children's mental health has also recently been investigated by researchers in the United States. The researchers found that, on average, children exposed to second-hand tobacco smoke exhibited some symptoms of depressive disorder, ADHD, generalized anxiety disorder and conduct disorder (Bandiera, Richardson, Lee, He, & Merikangas, 2011).

### **Smoke-free areas for children**

There is widespread public consensus that children should be protected from SHS. Studies have shown that over 90% of New Zealanders support the right for people to live in a smoke-free environment; and 90% of smokers agree that it is not okay to smoke around children (Thomson, Wilson, & Edwards, 2009).

Smoking in cars exposes all passengers to dangerous levels of toxins. These are particularly dangerous for children who have smaller airways. A number of states in Australia, Canada and the USA have brought in legislation banning smoking in cars when children are passengers. There is evidence that this reduces children's exposure to second-hand smoke while travelling in cars: the 2007 smoke-free vehicle law in South Australia resulted in an increase in smoke-free vehicles with children from 69% in 2005 to 82% in 2008 (Hickling, Miller, & Hosking, 2009).

In New Zealand there is widespread support across all groups, and from smokers themselves, for banning smoking in cars when small children are present. This includes a high level of support for requiring smoke-free cars for pre-school children (Thomson, et al., 2009; Thomson, Wilson, Weerasekera, & Edwards, 2008).

Despite this, a recent study confirms that most parents continue to expose their children to dangerous levels of second-hand smoke in cars (Nabi et al., 2011). Banning smoking in cars when children are present is the only way to protect them from this harm.

### **Normalisation of smoking**

The ready availability of tobacco creates a false impression for children that smoking is 'normal' behaviour. This is not the case at all as most people (around 80%) do not smoke and of those who do smoke, two-thirds would like to quit. Only around 5% of adult New Zealanders actually want to be smokers. Overt marketing of tobacco products, and exposure to adult smoking, results in young people vastly overestimating how many people smoke.

Peer group and the wider social context of children and teens are key factors in determining whether they become smokers. Parental smoking is also a key risk factor for young people becoming smokers later in life, with teenagers being more likely to smoke if one or both parents smoke. The proportion of students who smoke daily but report that neither parent smokes is 3%, compared to 20% of students in homes where both parents smoke. Even having just one parent who smokes triples the risk of a student being a daily smoker, with 10% of students who smoke daily reporting one parent who is a smoker (The Smokefree Coalition, undated).

To protect children and young people, smoking must be seen as aberrant behaviour. To make tobacco seem less 'normal', there needs to be stronger community support for smoking cessation. In addition, locations where young people are present must be smoke-free, including homes, meeting places and other environments, particularly cars.

### Alcohol

Alcohol is New Zealand's most widely used recreational drug. The urban landscape is blighted with liquor advertisements. New Zealand's drinking culture is supported and encouraged by alcohol being for sale 24 hours a day 7 days a week.

*The primary driver of the heavy drinking culture is the excessive commercialisation of alcohol. Two hundred thousand dollars a day is spent by the alcohol industry promoting alcohol to the population, especially young people, as the vehicle to a successful happy life, being part of the popular in-group and being sexually attractive. (Sellman, 2011)*

National drinking surveys have consistently shown around 25% of drinkers or 700,000 New Zealanders typically drink large quantities when they drink; and among young drinkers aged 15 to 24, the rate is much higher, with 50% of them drinking this way.<sup>108</sup> This has led Alcohol Action to write:

*There is a national alcohol crisis. However, this crisis is under-recognized because we have become numbed by the unrelenting presence of alcohol-related problems. The national alcohol crisis has become our way of life.* (Alcohol Action Website, n.d.)

The evidence affirming the harm caused by alcohol is overwhelming. Concern around this issue led to the instigation of the New Zealand Law Commission (NZLC) leading a comprehensive review of the laws pertaining to the sale, supply and consumption of alcohol in New Zealand. In April 2010, the Royal Commission published the final Report on the review of the regulatory framework for the sale and supply of liquor, *Alcohol In Our Lives: Curbing the Harm* (NZLC, 2010). During the course of its investigation, the Commission received almost 3,000 submissions, the highest number ever received on a social issue. Despite the number of submissions received, and the comprehensive recommendations, the government remains reluctant to confront this social hazard with legislative changes.

The Report draws heavily from the submission from the Office of the Children's Commissioner (2011).<sup>109</sup> It gives a full picture of the social and economic costs to our society and pays particular attention to the impact on children. The Report leaves no doubt about the negative role alcohol plays in the lives of children, and leaves no doubt about the negative role alcohol plays in the lives of children (NZLC, 2010, pp. 91-93).

*In summary, it is clear from the preceding discussion that, from conception through to adolescence, exposure to alcohol has the potential both to cause and be associated with a range of negative outcomes for children.* (NZLC, 2010, p. 91)

Since the publication of the Law Commission's report, the Chief Scientist has released a comprehensive report on children's transition to adolescence which only adds to the concern about the health and social damage inflicted on young people by alcohol (Gluckman & Hayne, 2011, Chapter 19).

## Impacts on children

The next paragraphs summarise the impacts on children that have been well canvassed in the 2010 Law Commission report and associated submissions. It is of deep concern that knowledge about the damage of alcohol in the lives of children is given scant regard in policy design.

### **Pregnancy**

*We do not know what, if any, amount of alcohol is safe. But we do know that the risk of a baby being born with any of the foetal alcohol spectrum disorders increases with the amount of alcohol a pregnant woman drinks, as does the likely severity of the condition. **And when a pregnant***

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<sup>108</sup> The Alcohol Advisory Council of New Zealand (ALAC) defines a quarter of adult drinkers in New Zealand as "binge drinkers" because they typically consume seven or more standard drinks per session. (One standard drink contains 10 grams of pure alcohol.) The Ministry of Health's Alcohol Use Survey 2007/08 defines someone who drinks large amounts of alcohol as a man who drinks more than six standard drinks or a woman who drinks more than four standard drinks on a typical drinking occasion. By this measure, the Alcohol Use Survey 2007/08 found: 25% of New Zealand drinkers aged 12 to 65 years consumed large amounts of alcohol on a typical drinking occasion, as did 54% of 18-to-24-year-olds.

<sup>109</sup> See the OCC Submission at: [http://www.occ.org.nz/\\_\\_data/assets/pdf\\_file/0013/8050/CC\\_Alcohol\\_21.02.2011.pdf](http://www.occ.org.nz/__data/assets/pdf_file/0013/8050/CC_Alcohol_21.02.2011.pdf).

***woman drinks alcohol, so does her baby.*** Therefore, it's in the child's best interest for a pregnant woman to simply not drink alcohol. (Office of the U.S. Surgeon General, 2005)

Although it is now recognised that no amount of alcohol consumption during pregnancy is safe, a disturbing number of New Zealand women still drink during this time (Parackal, Parackal, Harraway, & Ferguson, 2009). There are no long-term studies of the incidence of Foetal Alcohol Spectrum Disorder (FASD) in New Zealand, however, the widespread acceptance of drinking while pregnant would indicate this syndrome is not uncommon, and it is estimated that over 600 babies born each year are affected by FASD (P. A. May & Gossage, 2001; Sampson et al., 1997). Its impact on the development of the baby in the womb is devastating with the main damage being to the central nervous system.

Binge drinking during pregnancy is of particular concern with a recent study showing that the toxins built up in this behaviour can damage the DNA of unborn children beyond repair (Joenje, 2011).

### **Childhood**

Alcohol abuse and the ready availability of alcohol impacts on children's lives a number of ways.

- Drinking in the immediate family environment, especially when linked to domestic violence;
- The abuse and neglect of children;
- The negative impact of alcohol on neighbourhood safety;
- Early uptake of drinking among children and adolescents.

The impact of harmful parental drinking has been well documented by the Office of the Children's Commissioner (Office of the Children's Commissioner, 2011). Alcohol Action have also written about the "collateral damage" suffered by New Zealand families because of harmful drinking (Alcohol Action, 2011). Despite the developing knowledge of the neurological impact of alcohol, the liberalisation of regulations and the fiercely competitive alcohol market have led to higher rates of drinking among younger adolescents.

After many submissions on the concern of the impact of alcohol, the Law Commission formed the view that a more cautious regulatory approach is necessary, given the strength of the new evidence regarding the risk to young people from the early initiation of drinking (NZLC, 2010). This advice, too, has been set aside by the Government.

### **Vulnerable communities**

Alcohol plays a significant role in perpetuating the cycle of poverty (Cerda, Diez-Roux, Tchetgen, Gordon-Larsen, & Kiefe, 2010). It is a disturbing reality that alcohol is significantly more readily available in lower socio-economic neighbourhoods than in neighbourhoods of higher socio-economic standing (Hay, Whigham, Kypri, & Langley, 2009). For example, a recent University of Otago study found that the average distance a person had to travel to a liquor outlet was 50% greater in more affluent areas than the most deprived areas (Parackal, et al., 2009).

Alcohol Advisory Organisation (2010) research found that off-licence outlets, including alcohol retailers, supermarkets and bottle stores, tended to locate in areas of high social deprivation and high population density. They also found that the addition of a single extra off-licence was associated with an extra 60 to 65 police events or incidents in the year to June 2009; each additional club or bar was associated with an extra 98 to 101 police events or incidents; and each additional restaurant



or café was associated with an extra 24 to 29 police events or incidents (Alcohol Advisory Council (ALAC), 2010).

Measures to increase the purchase price of alcohol, to restrict its marketing and availability, and to more tightly regulate drink-driving, would reduce the considerable harm that excessive alcohol consumption does to New Zealand’s young people (Gluckman & Hayne, 2011).

*Alcoholism is hidden because it is legal – it’s swept under the carpet.*

(Girl aged 13, 2010)

## Gambling

*Whether you win credits or lose the spin, the pokie machine sits, like an **electronic mugger**, waiting for you to either cash up or play again. It waits, ready to sap every last dollar from your wallet. It cannot know who you are, or what you can afford. It knows not what you wear, or how long you’ve been there. Only you know what you really have to lose.* (Gambling Watch, 2011)

<b>Table 14.1. Gambling in New Zealand 2010</b>	
(Source: Department of Internal Affairs, 2010)	
Annual turnover in gambling	\$15200 million
Money lost in 2010	\$19000 million
Money lost per day	\$ 5.2 million
Money lost on pokies	\$ 849 million
Lottery Commission	\$ 347 million

The addictive and destructive nature of gambling and its public health cost was formally recognized in New Zealand when the Ministry of Health was tasked with the funding and coordination of problem gambling services under the Gambling Act 2003, and assumed responsibility for this role on 1 July 2004.

### Impact on children

While the economic costs of gambling are well known, a report by the Centre for Social and Health Outcomes Research and Evaluation (SHORE) on the Socio-Economic Impacts of Gambling (2006) affirmed that the health and well-being impacts of gambling are also wide-reaching for gamblers and their family/whānau. More recently, surveys for the Ministry of Health (Casswell, 2008; Ministry of Health, 2009a) found that those gamblers who spend longer gambling on pokies rated themselves as being poorer parents/caregivers than those that gambled in other ways.

Children often live in families on which enormous stresses are placed as a direct result of gambling. The burden of this may include witnessing family violence and perhaps crime. The Ministry of Health (2009a) found that one of the more significant ways in which excessive gambling has highly toxic effects on individuals, families, and the wider community, is gambling-related crime. The study showed that Māori and Pacific people are 2–3 times more likely to report experiencing problems due to someone else’s gambling. Research by the Salvation Army (Johnson, 2011b) found that, of their clients affected by gambling, approximately three-quarters had children directly affected by the loss of household income arising from gambling. This includes problem gamblers who report domestic or other violence related to their gambling. On average, the Salvation Army estimates 5–10 people are affected by the problem gambling of one person (Johnson, 2011b).

## Effects on parenting and caring

In 2001, children of problem gamblers were reported to be two to three times more likely to be abused by both the gambler and his or her spouse than their peers (Bellringer, Abbott, & Brown, 2009). Bellringer et al. (2009) conducted the first study of its kind worldwide, on behalf of the Ministry of Health, exploring the link between gambling (including problem gambling) and unreported crime. Almost two-thirds of the 33 participants said their first gambling-related crime

*More than 140 children have been abandoned in New Zealand casinos in the last 2 years – but that could be “the tip of the iceberg” when it comes to gambling-related child neglect.*

(Leask, 2011)

was in the same year as, or just a few years after, starting regular gambling. For those already engaging in crime, criminal behaviours started a few years prior to commencement of regular gambling. A startling 85% recognised that their gambling had caused harm to others, including family or whānau. This substantial incidence of unreported gambling-related crime is ‘invisible’ to the authorities. Bellringer et al. (2009) suggest this quantity of unreported gambling-related crime raises the possibility that there may be significant economic and social costs associated with gambling which have not previously been factored into economic and social cost analyses of gambling.

## Normalization of gambling

Notwithstanding the Community Gaming Association’s claim that it “seeks to achieve positive outcomes for its members and the communities they serve” (Community Gaming Association, undated), recent research has found that parents engaging in gambling reported unstable environments and neglect, including lack of time, lack of quality time, lack of supervision, and compromised provision of food and clothing (Perese, 2009). Increased gambling resulted in children being moved from the forefront of family life, with older children reporting taking on debt or extra work to compensate for their parent’s gambling expenses. The gambling by one family member leading to debt for another illustrates that social hazards reinforce one another, and seldom occur in isolation. This includes alcohol and nicotine dependence. For example, a UK study found that 73% of problem gamblers had an alcohol disorder and 60% had a nicotine dependence (Griffiths, Wardle, Orford, Sproston, & Erens, 2009).

You bet your life... and mine!

Perese (2009) noted that interviewees expressed apprehension at the normalisation of gambling and the exposure of children to the stresses of debt. Other researchers have also found the environments that young people grew up in had a significant impact on their future gambling habits:

*gambling is more than just an individual behaviour: young people’s choices around gambling are influenced by factors such as their life experiences and circumstances, and the messages conveyed to them concerning gambling* (Rossen, 2008, p. 19).

Other risk factors for problem gambling in young people found by Rossen (2008) and Nguyen (2009) were: having a parent with a gambling problem; exposure to gambling by family or friends who are high-frequency gamblers; or early commencement of gambling. There is now substantial evidence that there is a moderate risk associated with parental gambling problems, with research findings consistently indicating that children of problem gamblers are 2 to 4 times more likely to develop gambling problems themselves than the children of non-problem gamblers (Dowling, Jackson, Thomas, & Frydenberg, 2010).

Gambling in low-income communities is of particular concern, as these communities tend to be targeted by pokie-machine operators, and are comprised of families least able to afford it. Gambling behaviour is supply driven: the amount of gambling activity in an area is associated with the density of gambling opportunities in that area. Nationally, 47% of gambling venues are in decile one, two and three areas. Non-casino gaming machines or “pokies” are five times more likely to be concentrated in decile one and two areas, and TAB venues are three times more likely to be located in the most deprived areas. Gaming machines do provide a source of funding for many sports and charitable organisations. Although one-third of the money spent on machines is returned to the community nationally, it is more likely to be returned to more affluent communities and sports organisations rather than the low-income communities from which much of it is drawn (He Oranga Pounamu, 2006).

Gambling in low-income areas causes damage to the families in those communities, and in particular to children. The evidence suggests that easy access is the biggest issue. The government claims 20% of profits from gaming machines as tax and thus has no incentive to minimise gambling. Local councils have no such financial stake and are thus in a better position to adopt a sinking lid policy, and to restrict the number of gambling venues and gambling machines in their district.

The tide is, however, being turned through the efforts of communities themselves. The Salvation Army reports (2011b, p. 45), the continuing decline in the prevalence of, and losses from, Class 4 gaming machines;<sup>110</sup> and even while other forms of gambling, especially Lotteries Commission lotteries, remain very popular, these operations are also showing some decline over the recent year. In addition, Auckland’s Otara Action Group has been successful in achieving a sinking lid policy on pokies in their area, despite active resistance from gambling industry who tried to discredit their submissions.<sup>111</sup>

The research referenced here emphasises the points that gambling is a public health issue and children are an intrinsic and important part of this public health picture; and the legal social hazards of alcohol, tobacco, and gambling are often associated, and often precipitate dealings with another of New Zealand’s legal social hazards: high-priced debt from fringe lenders.

## Loan sharks

Most of the developed world has acknowledged the need to cap interest rates in order to provide protection for the vulnerable members of their communities.<sup>112</sup> The absence of an interest rate cap in New Zealand means that, in the event of a crisis, many families unable to access high-street credit turn to loan sharks. This means they then struggle to meet the cost of their necessities like food, or rent, or power. In the event they are unable to make the repayments on the due date, default fees and penalty interest accumulate, increasing the financial strain. Thus, easy access to high-priced debt

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110 31 September 2010, there were 18,601 Class 4 gaming machines in New Zealand’s clubs and pubs—down 4% from a year previously, and 14% from 2005 when there were 21,684 such machines in operation. In per capita terms, this decline is even more noticeable. In 2005, there were 71 gaming machines for every 10,000 population over 18 years. By 2009, this ratio had fallen to 60 machines per 10,000; and during 2009/10 it fell further to 57 (Johnson, 2011b, p. 43).

111 See [http://www.problemgambling.org.nz/community-story\\_otara-action-group](http://www.problemgambling.org.nz/community-story_otara-action-group).

112 For example, in Bosnia, Cambodia, Azerbaijan, Kenya, India, Latin America, and West Africa, there has been a usury rate applied to banks and all financial and microfinance institutions set at 27% annual interest rate, and the central bank and the Ministry of Finance are responsible for enforcing this law: <http://www.mftransparency.org/pages/case-study-interest-rate-cap-in-waemu-countries/>. Currently, New South Wales, Victoria, Queensland and the ACT impose an interest rate cap on regulated consumer credit: <http://www.langes.com.au/consumercredit/2010/03/12/interest-rate-caps-under-the-national-credit-scheme/>.

has the consequence of a deteriorating financial situation for families over time, with the associated stress, and the risk of loss of goods have been put up as collateral for the loan.

In May 2011, Consumer Magazine sent two mystery shoppers to four fringe-lending operations in the same 100-metre strip in Porirua. The three issues that emerged were: lack of transparency about loan costs and charges; high annual rates and fees, up to 463% in one instance; and their advertising is targeted at vulnerable people. Lenders do not have to disclose the loan costs and terms in advance of the person signing up, but they do have to disclose the loan terms within five days. Borrowers then have the right to cancel the loan within three days of that disclosure (Consumer Magazine, 2011).

According to the Ministry of Consumer Affairs, a very high interest rate is not necessarily excessive for these easy-access loans. If someone borrows \$200 from a payday lender and pays back \$220 the next week, although the annual interest rate would be 520%, the total amount of interest paid was only \$20. The real problems emerge when a person is unable to repay the loan, so it is compounded, retaining that same interest rate (Consumer Magazine, 2011).

The recent Financial Service Providers (Registration and Dispute Resolution) Act 2008 does not cover high interest and fees, so the free dispute-resolution schemes<sup>113</sup> cannot assist consumers in such cases. The only recourse for people trapped in usurious contracts is through the Disputes Tribunal if the amount is for \$15,000 or less (or \$20,000 if both parties agree), or through the Court system. However, it is expensive to take a case through the Court system, and those suffering under high interest rates are seldom in a financial position to pursue this option.

Under the Credit Contracts and Consumer Finance Act (CCCFA), the size of fees and default fees cannot be unreasonable. The CCCFA also allows the Court or a disputes tribunal to reopen a credit contract if it finds the contract is grossly unfair, or the lender has acted oppressively. Occasionally the court has decided that an extremely high interest rate was oppressive and reopened the contract and lowered the interest rate.

The Ministry of Consumer Affairs is reviewing consumer credit law, including the CCCFA and the Credit (Repossession) Act. As part of the review, the ministry will investigate a suggestion from community lawyer Bill Bevan that lending money to someone who plainly cannot repay is a breach of section 29 of the Consumer Guarantees Act<sup>114</sup> because the lending services are not “fit for purpose”. The problem remains, however, that the consumer must pursue the action through the Courts unless such breaches are brought under the ambit of the dispute resolution schemes.

Various budgeting services, the Salvation Army, unions and other community groups have recently re-launched a campaign to crack down on fringe lenders who target vulnerable families and charge high interest rates on loans (Consumer Magazine, 2011). Labour’s Carol Beaumont has been active in addressing the problem of loan sharking, and in April, she launched the Community Alliance Against Loan Sharks.<sup>115</sup> She promoted the Credit Reforms (Responsible Lending) Bill, drawn out of the ballot and voted down in May 2010, and has since combined with the Green Party to promote two new private members’ bills on this issue.

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113 Financial dispute resolution schemes that are free to consumers are the Insurance and Savings Ombudsmans Scheme (ISO), Financial Services Complaints Limited (FSCL), the Financial Dispute Resolution Scheme Ltd (FDR), and the Banking Ombudsman Scheme (BOS).

114 See Consumer Magazine report on the Act at <http://www.consumer.org.nz/reports/consumer-guarantees-act/introduction>.

115 See <http://labour.org.nz/node/3534>.

After speaking strongly against Beaumont's bill, National's Sam Lotu-liga submitted his own bill which would establish a registrar of moneylenders under the Financial Markets Authority to administer a strict licensing regime, extending to the certification of those employed by moneylenders or who act as their agents. The maximum penalties for unauthorised moneylending would be a fine of up to \$500,000 and seven years in prison; forms of security would be limited; the issue of oppressive contracts would be addressed; fees would be prohibited except by regulation; and interest rates would be capped at 48%, "above which there will be a presumption of oppression that must be rebutted by the lender" (Lotu-liga, 2011).

In June 2011, a finance company's move to offer loans via text message perhaps focussed the attention of the Government. Ferratum New Zealand offers loans of up to \$600 via mobile phone, which it says are hugely beneficial for consumers wanting to make on-the-spot purchases without having to wait. The Finland-based company argues that its service allows lenders to meet urgent



needs such as grocery bills. (NZPA, 2011c) People desperate for money can access the loan by text message, with the cash arriving in minutes, but the interest rates top 60%. For a \$300 loan the interest is more than 60% for 45 days. If unpaid after that time, the debt will be handed to a collection agency, which would send reminder letters at an additional cost of up to \$150 per letter (Wade, 2011).

The issue of loan sharks and fringe lenders is rarely out of the spotlight (New Zealand Herald, 2011). In July 2011, the new Minister for Consumer Affairs, Simon Power, announced that he, too,<sup>116</sup> will be holding a Financial Summit in South Auckland, in August 2011, and his target, too, is unscrupulous credit companies (S. Power, 2011). Initially, his focus was on financial literacy. However, someone desperate for cash to pay for the groceries while they are standing by the cash register in the supermarket is not in a position to challenge either the interest rate or the fees charged on the transaction. As the days went by, Power shifted his position and on 24 June he announced that the Government is open to putting a cap on the interest rate that can be charged on loans as it looks to crack down on loan sharks (Television New Zealand, 2011).

Fringe lenders or loan sharks prey on people desperate for money. In their research on fringe lenders, Cagney and Cossar (2006, p. 16) found 185 firms of fringe lenders; 71 sites (38%) were located in Auckland, 36 (19%) in Christchurch and 16 (9%) in Wellington. All the loan sharks were located in low-income areas. Table 14.1 indicates the number of children in 2010 who are potentially impacted by the oppressive interest rates charged by fringe lenders. The high interest rate charged on an emergency loan accessed by text from the supermarket is likely to prevent the parents from providing adequate food for their children the following week.

Financial literacy will assist families in the present and in the future in better management of the money they do have. Financial literacy will not address the high interest rates accepted by desperate people. Only capping interest rates will do that.

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<sup>116</sup> Judith Tizard, Labour's Minister for Consumer Affairs, held the first South Auckland Financial Summit in 2007, and Heather Roy, the newly appointed National/Act/Maori Party Minister held one in 2009.

## Recommendations

Child Poverty Action Group urges that the protection of children be at the forefront of the regulatory framework around social hazards, including:

- Banning tobacco retail displays;
- Requiring plain packaging and graphic warnings to replace brand imagery;
- Ensuring locations where young people are present, including private vehicles, are smoke-free;
- Empowering parents and caregivers to be smoke-free in order to protect their children from becoming smokers;
- Exposing the tactics and activities of the tobacco industry.
- CPAG supports the recommendations of the Alcohol Action group:
  - Introduce a minimum price per standard drink to end ultra-cheap alcohol sales;
  - Reduce the adult drink-driving limit from 0.08 to 0.05;
  - Begin a five-year period of dismantling alcohol advertising and sponsorship;
  - Restore alcohol-free status to supermarkets;
  - Return the purchase age for both on- and off-licence to 20 years; and
- In recognition of the considerable harm that excessive alcohol consumption does to New Zealand's young people: restrict its marketing and availability, and introduce harsher penalties for drink-driving;
- Recognise the damage 'problem gambling' does to the children in a family and in a community, and support a Public Health approach toward amelioration and solutions;
- Support the 'sinking lid' policy toward the reduction of gambling machines, and develop alternative options for community funding of sports and charities;
- Follow the lead of most of the rest of the developed economies and cap interest rates;
- Support the teaching of financial literacy as part of the curriculum in primary schools.



# PART FOUR

## Chapter 15. Early childhood care and education

Jenny Ritchie<sup>117</sup> and Alan Johnson<sup>118</sup>

### General introduction

The National Equal Opportunities Network (NEON), a partnership between the Human Rights Commission and the EEO Trust,<sup>119</sup> argues that the provision of high-quality, affordable, accessible and available early childhood education benefits both young children and their parents, and ultimately the community. They give particular attention to the lack of provision of early childhood care and education places in rural and low-income areas, and the gender imbalance in carer roles that still operates as a cultural norm. There has been confusion in recent early childhood education policy as to the value to society of provision. This confusion has centred around the dual aims of meeting the needs of children and families for quality education and care; and providing support to families and the economy by providing adequate early childhood services for young children and thus freeing workers for the workforce. The focus in this chapter is on the causes and consequences of under-provision of early childhood education. The chapter first provides an overview of early childhood education in New Zealand. The second section, “To those that have, more shall be given”, digs deeper into the data, and focuses particularly on under-provision in low-income and rural communities.



### Overview of provision of early childhood education

The opportunities for learning, growth and development offered in high-quality early childhood education (ECE) programmes have the potential to provide significant benefits for families and their young children in a range of ways. These include parenting skills and emotional support for families, and accessing foundational early learning experiences for young children.

*High quality early childhood care and education services can be a powerful equaliser, reducing disadvantages in low-income families.* (Fletcher & Dwyer, 2008, p. 66)

A range of New Zealand and international studies found that, in good quality ECE centres, cognitive gains in mathematics and literacy for children from low-income and disadvantaged homes could be greater than for most other children (Mitchell, Wylie, & Carr, 2008, p. 3).

The New Zealand government has historically positioned the ECE field outside of the compulsory sector of primary and secondary provision. This has allowed successive governments to display varying degrees of detachment from the responsibility for offering high quality and accessible early childhood education services for all children and their families. The three-term Labour-led government of Helen Clark made significant steps towards demonstrating a commitment to the provision of high-quality ECE services for all children of families who wanted to access these, with the development and implementation of *Pathways to the Future: Ngā Huarahi Arataki. A 10-Year Strategic Plan for Early Childhood Education* (Ministry of Education, 2002). A key plank of this policy was raising the

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119 [www.neon.org.nz/nationalconversationaboutwork/onthejobissueswhatnext/parentinganddependentcare/](http://www.neon.org.nz/nationalconversationaboutwork/onthejobissueswhatnext/parentinganddependentcare/).



previous minimum requirement for staffing from one person per setting with a three-year level ECE qualification, to the goal of every staff member being a fully qualified teacher by 2012. In July 2007, the government's radically progressive innovation of the introduction of the "20 Hours Free" childcare policy for three- and four-year-old children was a promising step towards Labour's acceptance of its role in providing universal quality early childhood education. However, access for individual families was dependent on the willingness of particular early childhood services to take up the provision, many having expressed concern that the government's funding limit was inadequate. Further, the 20 Hours Free was initially only available to 'teacher-led' services, thus excluding Playcentre and Kōhanga Reo.

The current National-led government extended availability of this subsidy to 'whānau-led' services from July 2010. At the same time, the policy was re-titled "20 Hours", semantically signalling a move away from the principle of universal free provision of quality early childhood care and education. Minister of Education Anne Tolley advised early childhood centres that are struggling financially to introduce fees to top up the '20 Hours' early childcare policy funding (Yahoo!Xtra News, 2010, Feb 1).

### **ECE Taskforce Overview Information**

In October 2010, prompted by concerns about the huge increase in early childhood funding generated through the '20 Hours' policy, the Ministry of Education announced the establishment of a taskforce "to undertake a full review" of the early childhood care and education sector (Ministry of Education, 2010, p. 1). The Ministry website on the ECE taskforce claims:

*current spending is not reaching all the neediest children and families, but is benefiting many children who already have the opportunity for a strong start in their education. Costs to Government are continuing to rise, but with no guarantee of improved outcomes for learners in return.*

Whilst there are no 'guarantees' in social arenas such as education, as shown throughout this chapter, the research evidence is emphatic that quality early childhood education is of benefit to all children and families who are lucky enough to access it. The chief difficulty in our current early childhood arena is that successive governments have relied on private provision to deliver what is actually a community benefit. The profit-orientation of many early childhood businesses means that these enterprises are viewed as being unlikely to deliver sufficient profit margins in low socio-economic areas. The briefing papers prepared by the Ministry of Education for the EC Taskforce offer some revealing statistics. These appear below in italics, with commentary following.

### **Economic disparities**

- *In 2009, about 22% of all 0–6 year olds lived in a 'low-income household' (ECE Taskforce Secretariat, 2010, p. 2).*

There are also compounding factors with regard to the rural/urban divide. The private sector does not view low population density areas as profitable. As stated earlier in this chapter, high quality early childhood education provision has been demonstrated to make measurable differences, which are more marked in children who arrive with the greatest initial disadvantage. Margaret Carr (a widely respected New Zealand early childhood education academic) and Linda Mitchell responded to last year's early childhood policy changes with a strongly worded opinion piece published in the *New Zealand Herald*, in which they stated:

*Economic inequality will now be associated from the early years with educational inequity. The new education policy established by the May [2010] budget says that we cannot afford the financial cost of qualified teachers to provide care and education for all of New Zealand's youngest and most vulnerable of children. We say that as a nation we cannot afford not to— the long-term social, economic and educational cost is too high.* (Carr & Mitchell, 2010, Wednesday March 9, p. 1)

### **Reliance on the private, for-profit sector**

- *In 2009, about 40% of services were for-profit and about 60% non-profit, as compared to 2000 when the same split was 26%/74%. (ECE Taskforce Secretariat, 2010, p. 5)*

It is clear that the neo-liberal policy agenda of relying on the private, profit-oriented sector for early childhood care and education provision, first promoted by the National-led governments of the decade of the 1990s, has resulted in the

*private sector and corporate groups [being] best positioned to respond to the expanding provision and participation.* (H. May & Mitchell, 2009, p. 9)

According to leading early childhood education researchers, May and Mitchell:

*Increasing levels of Government funding were, again, making early childhood education service provision a business opportunity, to the extent that some private childcare businesses were listed on the stock exchange with the intention of delivering a financial return to stockholders. Multi-national companies such as Macquarie Bank were able to move in and out of the market, rapidly buying and then selling centres for a large profit.* (H. May & Mitchell, 2009, p. 9)

This reliance meant that children, families, and early childhood education workers were increasingly vulnerable to market forces. This was clearly evident when, after the Australia-based corporate ABC Learning had expanded rapidly into New Zealand,

*the financial collapse of its parent company left New Zealand ABC users and operators in limbo.* (H. May & Mitchell, 2009, p. 9)

Service growth is lower in the poorest areas: 4.4% from 2006 to 2009 after taking account of the 0–4 year old population growth, compared with an average of 11.0% in not low SES areas (ECE Taskforce Secretariat, 2010, p. 7).

Again, this inequity demonstrates the folly of leaving early childhood provision to the private sector. Market forces work in inversion to socio-economic need.

### **Cultural inequities**

- *There is a persistent gap in take-up of ECE between children from European and higher socio-economic status backgrounds and others. While most children participate in at least some ECE prior to starting school (95.1% overall), participation rates of Māori (91.4%), Pasifika (85.4%) and children entering deciles 1–4 schools (and hence assumed to be from lower socio-economic groups, 89.2%) are much lower than this average, which is boosted by the 98.5% European rate. The reasons for this lower level of participation are complex and likely to relate to both the supply of, and demand for (including ability to access and afford), ECE services.* (ECE Taskforce Secretariat, 2010, p. 7)

- Post-2005 “*participation*”<sup>120</sup> by Māori increased from 89.9% of four year olds to 91.4%, and for Pasifika, from 84.5% to 85.4%”. (ECE Taskforce Secretariat, 2010, p. 11)
- *Between 2006 and 2026, it is predicted that the European share of the under-five population will drop from 60% to 50%, with concurrent increases in the Māori, Pasifika and Asian populations.* (ECE Taskforce Secretariat, 2010, pp. 2-3)

Socio-economic and cultural factors regarding early childhood education (non)-participation are closely interwoven. There is copious research to indicate that Māori families value early childhood and other education experiences for their children, particularly those in which their children receive culturally relevant experiences, including the opportunity to learn te reo Māori (AGB/McNair, 1992; Dixon, Widdowson, Meagher-Lundberg, McMurchy-Pilkington, & McMurchy-Pilkington, 2007; Else, 1997; Te Puni Kōkiri/Ministry of Māori Development, 1998). The recent Ministry of Education-funded review of its Promoting Participation in Early Childhood Education project found that

*For all Māori families, having access to ECE environments that supported Māori cultural practices and language was a key factor in participation.* (Dixon, et al., 2007)

This places the onus on the Ministry to ensure that the kinds of provision that Māori and Pacific families value with regard to their particular cultural priorities is available, and accessible in terms of financial, logistic and cultural distance (M. Durie, 2003). It is erroneous for the Minister/Ministry to use the guise of trying to increase participation for these ‘targeted’ groups as the reason for across-the-board funding/quality cuts. These will affect all children, including those Māori, Pacific, and families from low socio-economic groups who are fortunate enough to attend early childhood centres. Reducing the quality of our teachers, and hence of the programmes they are able to offer, is seriously endangering the futures of not only all young learners, but also of our country’s reputation for having a world-leading early childhood service (H. May & Mitchell, 2009).

### **Quality determinants**

- *The proportion of registered teachers increased from 37% in 2004 to 52% in 2005, and to 64% in 2009.* (ECE Taskforce Secretariat, 2010, p. 9)

Whilst a considerable increase is evident, 64% is still low compared to the primary and secondary education sectors, where all teachers must be registered (or in the two-year initial period of gaining registration). In order to be registered, a teacher must hold a qualification that is recognised by the New Zealand Teachers Council, and the current bench-mark is a minimum three-year teaching diploma or degree. The kindergarten sector, which is legally required to employ only qualified teachers, has been extremely disadvantaged by the recent 14% reduction in funding (Wells, 2010, p. 1) which means that services are funded only for 80% of their staffing to be qualified. The cut to funding is particularly ironic and frustrating given that this not-for-profit, community-based service has traditionally been a provider of free or very low-cost, high-quality early childhood education that has been widely accessed by families from low socio-economic areas (where state kindergartens have been established).

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120 Meaning at least 1 hour per week.

## Funding issues

- *Vote Education ECE spending increased from \$300 million in 2000/01 to \$1,100 million in 2009/10. The number and costs of teachers have increased, driven by the teacher-registration targets and increases in teacher collective agreements, and by services moving quickly to the higher teacher funding bands.*
- *There have also been significant volume changes with more children enrolling (an increase of almost 70%, 2001–2009), and for longer hours (from an average of 16.6 hours in 2005 to 19.5 hours in 2009). (ECE Taskforce Secretariat, 2010, p. 11)*

The previous Labour-led Government had been strongly committed to increasing both the quality of, and participation in, early childhood care and education, for both economic and educational reasons, and had put these expectations into highly regarded policies such as *Pathways to the Future: Ngā Huarahi Arataki. A 10-Year Strategic Plan for Early Childhood Education*, and 20 Hours Free ECE. Given that commitment, it is hardly surprising that funding has needed to be increased substantially. At times of high employment, availability of early childhood provision is highly desirable for the economy. Now that we are in an economic downturn, the needs and rights of children and families to the well-established educational, social and economic benefits of early childhood services are being viewed by the current National-led Government as less of a priority.

## Recent changes to early childhood policy and regulations

Recent changes to early childhood policy are eroding the positive steps that had been achieved to date through *Pathways to the Future: Ngā Huarahi Arataki* with regard to the expectation of having fully qualified early childhood educators, as well as the maximum group sizes for early childhood centres. Both of these factors are highly significant with regard to the provision of quality early childhood education. In its Budget 2010, the Government reduced the goal of 100% qualified teachers to a funding ceiling of 80%. Then on March 3, 2011, the Ministry of Education announced:

*From July 1 2011 this year, the maximum centre size that ECE services or hospital-based education and care services can be licensed for will change from 50 to 150 licensed child places.... The amended regulations will require one person responsible for every 50 children in a service. This will maintain the quality of supervision, continue to protect children, and will not add additional compliance costs to existing services. (Ministry of Education, 2011c, p. 1)*

It is incomprehensible that the Ministry has promulgated such a potentially damaging regulation without waiting for the April 2011 report of the ECE taskforce it set up in October 2010.<sup>121</sup> The research is unequivocal regarding the value of quality ECE provision:

*A number of rigorous, evaluative, controlled longitudinal studies have demonstrated that high quality ECE and parenting programmes can contribute substantially to school-readiness, improved educational performance and increased economic success in adulthood. (Heckman, 2006; Karoly, Kilburn, & Cannon, 2005; Schulman & Barnett, 2006; cited in Waldegrave & Waldegrave, 2009, p. 7)*

The gains are especially clear for children and families who are struggling: “Good quality ECE has greater benefits for children from low socioeconomic families, but children from middle and high socioeconomic families also gain.” (Mitchell, et al., 2008, p. 7) However, it is important to note that:

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<sup>121</sup> Surprisingly, there was no consultation with the sector prior to establishment of this taskforce.

“the especially negative effects of poor quality early childhood education for children, who come from families at risk, is another clear finding” (A. B. Smith et al., 2000, p. 121).

Key components of high quality early childhood education which are especially important are: “qualified staff, low child: adult ratios, small group size, and staff professional development opportunities” (Mitchell, et al., 2008, p. 8). These components enhance the possibilities for the quality of staff–child interaction; the learning resources available; the engagement of children and their families in the programme; and a supportive environment for children to work together (Mitchell, et al., 2008, p. 5). Furthermore, early childhood services “that contribute to positive child and family outcomes” are characterised by: intentional teaching; family engagement with ECE teachers and programmes; inclusion of social/cultural capital and interests from home; and cooperation between family and teachers to support the child’s learning; as well as the complexity of the curriculum provided (Mitchell, et al., 2008, pp. 7-8).

Clearly, the Government has decided that the early childhood sector has been costing too much money. Its response is to enable more places in lower quality early childhood education settings, without consideration for the research, or for the potential for long-term ill-effects. Ironically, the decision-making flies in the face of the economics:

*Economists, using conservative estimates of benefits based on recent relevant research evidence of ECE effects for children from across the socio-economic spectrum, projected cost benefits of offering universal high-quality ECE for 2-, 3- and/ or 4-year-olds. Most economic evaluations of ECE programmes have shown that benefits of public spending exceed the costs. Gains are not realised, or are not as great, if the ECE is of poor quality. Without considering the opportunity costs of that spending, comparing the investment to other types of early years intervention or alternative policy options, these findings tend to suggest that public spending for ECE programmes will result in good returns in terms of maternal employment, higher levels of the participant’s lifetime earnings, reductions in usage of special education services, lesser criminal activity, and reduced use of social services that are expected to have a flow-on effect to the economy. (Mitchell, et al., 2008, p. 7)*

## Summary

While the financial pressure on Government caused by national and global crises is undeniably severe, the commitment to ensuring equitable access to quality early childhood provision is too important to be side-lined. The recent Ministry changes, which cut funding for centres which retain qualified staff, and enable centres to increase unit sizes so that children may be cared for in centres catering to 150 children, and with one person responsible for 50 children are a crude and potentially devastating blow to a sector which has advocated for many years for the quality commitments that were finally articulated in *Pathways to the Future: Ngā Huarahi Arataki. A 10-Year Strategic Plan for Early Childhood Education* (Ministry of Education, 2002). As a recent report stated:

*It is very important to continue to create access and participation in high-quality ECE for as much of the population as is possible. The high quality of this sector in New Zealand is ideally placed to be a buffer against the negative effects of stress on children at risk and create authentic and natural connections between their parents and extended families, and informed people who can provide support and information. The ongoing quality of ECE in New Zealand will require continuing investment and monitoring. (Waldegrave & Waldegrave, 2009, p. 53)*

To those that have, more shall be given

Middle-class capture is a reality of the provision of early childhood care and education programmes in New Zealand. This is of concern because of 'cumulative advantage':

*This idea ... has been applied to literacy acquisition in primary school where a child entering school with literacy knowledge continues to achieve literacy advantage while those who enter without acquisitions tend to lag behind. It is a case of the literacy-rich getting richer and the literacy-poor getting poorer. (Walden, 2011, p. 7)*

Despite political and professional rhetoric on the value of early childhood education for reducing childhood inequality, there is scant evidence to suggest such a reduction has been prioritised by those who have designed early childhood education policy in the past decade. There is certainly little evidence to suggest children from poorer communities have benefited to the same degree as middle-class children from the rapid growth in government spending on ECE since 2006. While this inequity is not the result of indifference or malice on the part of those who have designed and approved funding for early childhood policy, the disappointing outcomes point to a poor understanding by politicians and their policy advisors of the limits of a paradigm which relies on demand subsidies and private sector investment decisions.

This part of the chapter considers the inequalities which have resulted from a market-driven and increasingly privatised ECE sector. Recent changes in the levels of ECE participation and funding are followed by analysis of levels of participation in ECE across ethnicities and household incomes. Finally, differences in the local availability of ECE services across a number of communities in New Zealand are reported and discussed.

### **Recent changes in ECE participation and funding**

The past five years have seen a huge expansion in public spending on ECE from \$522 million in 2006/07 to \$1.157 billion in 2010/11, disproportionate to the far more modest increases in the numbers of children participating in ECE services. The result has been a near doubling of the per-enrolment subsidy for a child attending an ECE centre. Over this period, 2006/07 to 2010/11, the average hours which children attended an ECE centre increased from 16.9 hours to 19.0 hours so some of this subsidy increase can be explained by this increase in extent of use. These trends are shown in Table 15.1 below:

	2006	2007	2008	2009	2010
Enrolments*	165,254	171,138	176,993	180,910	188,924
Budget \$millions nominal	522	586	807	1,029	1,157
Budget** \$millions Jun10	574	632	837	1047	1,157
Subsidy*** per enrolment \$s Jun10	2,885	3,357	3,571	4,626	5,543

Notes: \* Data from Education Counts website and are at July of the respective year.

\*\* Data from NZ Government Budget Appropriations which have been indexed against the CPI.

\*\*\* This per-enrolment subsidy is based on the budget for the previous year ie. the subsidy for 2010 is the budget for 2009/10 divided by the enrolments in July 2010.



## ECE participation by ethnicity

Two sources of official data provide a picture of recent changes in ECE participation by different ethnic groups. One source is data published by the Ministry of Education and is based on parent interviews of new entrants at the time they start school. This data, summarised in Table 15.2 below for Māori, Pasifika and European/Pakeha children, shows that the rate of participation of European/Pakeha children is about 10% higher than that for Māori children and 15% higher than that of Pasifika children.

	2006	2007	2008	2009
Māori	90%	91%	90%	91%
Pasifika	84%	84%	85%	85%
European/Pakeha	98%	98%	98%	99%

While these reported rates of ECE attendance indicate fairly high levels of participation across the board these data say nothing of the extent or quality of the participation being reported. For example, was the reported prior participation for two months or for two years? The data discussed below suggests a far less equitable pattern of ECE participation than that presented in Table 15.2. The second source of data is taken directly from Ministry enrolment data, summarised below in Table 15.3.

	2006	2007	2008	2009	2010	Change 2006-10
Māori	33,019	33,366	34,748	36,118	38,580	17%
Pasifika	9,697	9,993	10,678	11,060	12,111	25%
Asian	9,481	10,230	11,530	12,357	13,181	39%
European/Pakeha	110,366	111,982	113,401	112,618	119,170	8%
Total all ethnicities	165,254	171,138	176,993	180,910	188,924	14%

In isolation, the data in Table 15.3 reveals little about the equity of the current pattern of ECE enrolments except perhaps that minority ethnic groups, and specifically Pasifika and Asian children, have benefited relatively more from the increase in enrolment numbers between 2005 and 2010.

Nothing in Table 15.3 suggests anything about the ethnicity of children being born so that we might be able to assess if ECE participation is relatively equal. The ethnic breakdown of live births is provided below in Table 15.4 to provide a basis for assessing the fairness of current ECE enrolment patterns.



The significant difference between the number of live births and the number of reported ethnicities of babies in the bottom two rows of Table 15.4 points both to the extent of multiple ethnicity mixing within New Zealand's population<sup>122</sup> and to the problems we may have in accurately comparing ethnic identification from one data source to another.<sup>123</sup>

**Table 15.4. Live births by ethnicity 2006-09** (Source: Statistics New Zealand; Education Counts, 2011)

	2006	2007	2008	2009	Total 06-09	Share of Total (identified ethnicities)
Māori	17,342	18,717	18,844	18,027	72,930	22.7%
Pasifika	8,926	9,788	10,122	10,068	38,904	12.1%
Asian	6,028	7,076	7,263	7,492	27,859	8.7%
European/Pakeha	41,575	44,680	44,534	43,292	174,081	54.3%
Total all ethnicities	75,760	81,995	82,491	80,549	320,795	
Total live births	59,193	64,044	64,343	62,543	250,123	

The extent of these problems of definition has not been considered as part of this paper although it seems unlikely that such a problem can explain away the differences between enrolment rates and the ethnic breakdown of births which are summarised below.

Table 15.5 illustrates the extent to which European/Pakeha pre-school children are likely to gain above average access to ECE opportunities while Pasifika and Asian children are less likely to attend an ECE centre.

**Table 15.5. Ethnic shares of births 2006-09 and ECE enrolment July 2010**

(Source: Statistics New Zealand; Education Counts, 2011)

	Age 1	Age 2	Age 3	Age 4	All enrolments	Share of births 2006-09
Māori	21.7%	20.8%	19.7%	20.2%	20.4%	22.7%
Pasifika	5.4%	5.2%	6.6%	7.7%	6.4%	12.1%
Asian	4.6%	5.9%	7.7%	8.4%	7.0%	8.7%
European/Pakeha	64.3%	64.8%	63.4%	60.9%	63.1%	54.3%
Total all ethnicities	24,771	36,873	57,729	59,141	188,924	

The lower rate of attendance for Asian children may be a result of parents being less willing to send very young children to an ECE centre as levels of enrolment of Asian children rises as children reach four years old. The participation by Māori children appears to be just below the Māori share of births.

<sup>122</sup> Between 2006 and 2009, 14% of all new-born babies were identified as having more than one ethnicity: around 18% of European/Pakeha babies, 25% of Pasifika babies, and nearly 50% of Māori babies.

<sup>123</sup> Ethnicity is a characteristic which is self-identified by the respondent. Statistics New Zealand allows for the identification of multiple ethnicities by respondents. This is the basis of data collected by Statistics New Zealand on births. The Ministry of Education reports on singular ethnicities which presumably requires the respondent (who would normally be the parent enrolling a child) to identify a preferred ethnicity. There is no way of knowing if the ethnicity/ethnicities (as identified by its mother) of a new born child is the same as at their enrolment in an early childhood education centre or at school. This paper assumes that there is not a significant or systematic change in reporting of ethnicities by parents between birth and such enrolments.

It is difficult to estimate rates of enrolment in ECE by ethnicity from birth data because of the complications around ethnic identification and the allocation of multi-ethnicities from this data into the categories used by Ministry of Education for reporting of enrolments. This difficulty centres on the lack of an estimate of a base population against which to calculate enrolment rates. Statistics New Zealand does, however, provide population estimates by age for both the total population and for the Māori population which of course allows us to make Māori/non-Māori comparisons of ECE enrolments rates. This comparison is provided in Table 15.6 below.

<b>Table 15.6. A comparison of Māori &amp; non-Māori ECE enrolment rates 2010</b>			
(Source: Statistics New Zealand and Education Counts) <sup>124</sup>			
	Under 3	3 & 4 year olds	Under 5's
<b>MĀORI</b>			
ECE enrolment (July 2010)	14,997	23,291	38,288
Estimated population (at 30th June 2010)	55,850	33,310	89,160
Enrolment rate	26.9%	69.9%	42.9%
<b>NON-MĀORI</b>			
ECE enrolment (July 2010)	55,351	93,579	148,930
Estimated population (at 30th June 2010)	134,990	87,700	222,690
Enrolment rate	41.0%	106.7% <sup>125</sup>	86.9%

Table 15.6 indicates that the ECE enrolment rate for Māori children is likely to be half of that for non-Māori children. Even in the targeted three- and four-year-old age cohort, the rate of enrolment is around two thirds of that of non-Māori. The main reason for the apparent discrepancy between the reported relative position of Māori children is that Table 15.5 uses the larger estimate of all reported ethnicities in birth data as the basis for estimating the share of Māori children in the total population. By comparison, Table 15.6 and Statistics New Zealand estimates count a Māori child as someone with some Māori descent whose parents do not choose to define their child principally as non-Māori.

**ECE participation across communities**

Opportunities for pre-school children to attend a local ECE centre are not evenly distributed throughout New Zealand. As a general pattern, wealthier communities have higher rates of access to ECE places, although not all poorer communities have relatively poor provision of ECE services.

Table 15.7 sets out the national pattern of distribution of ECE enrolments based on local government regions and on local districts where there are localised problems of poor ECE provision. In mid-2010, ECE enrolments represented 60% of the country's under-5 population. Of all regions, only Auckland had a level of local provision significantly below this national average, while the Bay of Plenty, Canterbury and Otago regions had rates of provision significantly above average. Carterton District had the unenviable position of the lowest level of provision of ECE for any local council area with 34% enrolment of the local children, however, parts of South Auckland have lower levels of provision.

124 Data from Statistics New Zealand population estimates and ECE enrolment data, Education Counts website.  
 125 Because some children are enrolled in two or more centres at the same time, this rate exceeds 100%.

**Table 15.7. Under 5's population and distribution of ECE places across New Zealand 2010**

	Under 5's population (June 2010)	ECE enrolments (July 2010)	Enrolment as % of under 5's
NORTHLAND REGION	11,480	6,494	57%
AUCKLAND REGION	108,980	56,225	52%
South Auckland	29,975	11,890	40%
WAIKATO REGION	30,920	18,120	59%
Hauraki District	1,230	603	49%
Waikato District	5,200	2,193	42%
Waitomo District	810	384	47%
BAY OF PLENTY REGION	19,960	14,736	74%
Western Bay of Plenty District	2,810	1,327	47%
GISBORNE DISTRICT	3,940	2,295	58%
HAWKES BAY REGION	11,550	8,266	72%
TARANAKI REGION	7,880	4,722	60%
MANAWATU-WANGANUI REGION	16,290	10,365	64%
Manawatu District	2,110	943	45%
Tararua District	1,380	599	43%
WELLINGTON REGION	33,930	21,145	62%
Carterton District	540	181	34%
TASMAN-NELSON DISTRICTS	5,890	4,011	68%
MALBOROUGH DISTRICT	2,830	1,696	60%
WEST COAST REGION	2,200	1,279	58%
Buller District	660	286	44%
CANTERBURY REGION	37,300	25,203	68%
OTAGO REGION	11,870	8,186	69%
SOUTHLAND REGION	6,780	3,884	57%
Southland District	2,250	924	41%
NEW ZEALAND	311,850	187,218	60%

South Auckland is not an officially defined area and despite having a local population of nearly 300,000 people it is usually included in an administrative area known as Counties-Manukau. The aggregation of South Auckland into Counties-Manukau hides the relative disadvantage of some communities through the averaging of social outcomes such as ECCE enrolments across middle-income and low-income neighbourhoods. South Auckland can now be quite easily defined by the Auckland Council wards of Manukau and Manurewa-Papakura and by the local board areas which are known as Mangere-Otahuhu, Otara-Papatoetoe, Manurewa and Papakura. Tamaki, another urban community to the north and east of Otahuhu, has similar socio-economic characteristics to South Auckland although historically this community is seen as part of the Auckland isthmus and makes up a distinct part of the Maungakiekie-Tamaki ward of the Auckland Council.

Table 15.8 below shows the inadequate distribution of ECE centres, and therefore places, across the Tamaki and South Auckland communities, a large urban area where a single urban community can span six to eight kilometres across. The size and scale of such communities means that the local availability<sup>126</sup> of ECE centres is an important determinant of the feasible access families have to ECE services and opportunities.<sup>127</sup>

<b>Table 15.8. Distribution of ECE places in Tamaki &amp; South Auckland 2010</b>			
<small>(Source: Education Counts, 2011)<sup>4</sup></small>			
	Under 5's population (June 2010)	ECE enrolments (July 2010)	Enrolment as % of under 5's
Tamaki subdivision of Maungakiekie-Tamaki Ward	4,210	1,358	32%
– Panmure/Glen Innes/Point England	1,710	726	42%
Mangere-Otahuhu Local Board Area	9,234	3,144	34%
– Otahuhu	1,580	473	30%
– Mangere	7,654	2,671	35%
– Mangere – excluding Auckland Airport precinct	7,654	2,356	31%
Otara-Papatoetoe Local Board Area	7,140	3,276	46%
– Otara	4,095	1,395	34%
– Papatoetoe	3,046	1,881	64%
Manurewa Local Board Area	9,115	3,151	35%
– Manurewa west (west of railway line)	5,630	1,240	22%
– Manurewa east (east of railway line)	3,485	1,911	55%
Papakura Local Board Area	4,485	2,046	46%
– Papakura – core urban area	3,005	966	32%
South Auckland (excluding Tamaki)	29,974	11,890	40%
AUCKLAND REGION	108,980	56,225	52%
NEW ZEALAND	311,850	187,218	60%

While the whole of the area covered by the data in Table 15.8 is poorly served with ECE places, there is a story within the story. Some areas such as Papatoetoe and the Auckland Airport precinct, where there are high levels of employment, are relatively well served. Others such as Otahuhu and Manurewa West are virtual ECE deserts with local provision of ECE at half the national average.

Somewhat ironically, these communities are the ones with high concentrations of pre-schoolers with 8.5% of Otahuhu's population and 11% of Manurewa West's population being under five years old, compared to the national average of 7%. Urban Papakura, Mangere and Otara have rates of ECE provision which are scarcely better than those of Manurewa West and Otahuhu.

<sup>126</sup> In these contexts, 'local' is defined by walking distance.

<sup>127</sup> Numbers of children attending Kohanga Reo have been estimated based on average attendances in the local authority area. Home-based services have been omitted from local totals because the business address may not relate to where services are offered, but home-based services are included in the totals on this table.

<sup>128</sup> See footnote 6 for details of data source and limitations.

	Under 5's population (June 2010)	ECE enrolments (July 2010)	Enrolment as % of under 5's
Flaxmere	1,205	475	40%
Hastings urban area	2,530	1,654	65%
Havelock North	700	757	108%
HASTINGS DISTRICT (includes homebased services)	5,760	4,338	74%

The pattern of distribution across all three areas covered by the Tables 15.8, 15.9 and 15.10 is similar in that levels of ECE provision are much higher in middle-class suburbs and neighbourhoods than they are in poorer communities.

	Under 5's population (June 2010)	ECE enrolments (July 2010)	Enrolment as % of under 5's
Porirua East	2,170	924	43%
Rest of Porirua	2,665	1,508	57%
Porirua City (ECE centres only) Havelock North	4,820	2,432	50%
PORIRUA CITY (includes homebased services)	4,820	3,028	63%

To provide a comparison with Auckland, and to illustrate the extent of the inequitable distribution of ECE opportunities within these communities, Tables 15.9 and 15.10 report the distribution of ECE places in Hastings District and Porirua City respectively.

The comparison is most marked in the case of Hastings District where Havelock North has more than two-and-a-half times the level of provision of Flaxmere. A similar pattern of distribution can be seen between Porirua East and the western and northern suburbs of Porirua City, between urban Papakura and the surrounding rural residential suburbs and between Papatoetoe and Otara. Bucking this pattern is the case of Tamaki where there is a higher level of ECE provision in Glen Innes, Point England and Panmure than in the wealthier nearby suburbs of Mt Wellington, Panmure Basin and Ellerslie South.

If Aucklanders were to have the same level of provision of ECE services and opportunities as other New Zealanders, an additional 12,000 places would need to be provided in that city, with over 6,000 of these places in South Auckland and a further 1,000 in Tamaki. The Government's commitment to provide capital funding for community-based ECE centres in South Auckland is welcomed although the rate at which these are being built is unlikely to keep pace with population growth let alone make up for this deficit.

### **The failure to plan**

There is evidence that poorer communities and/or communities with high concentrations of Māori and Pasifika people have lower levels of provision of ECE services and centres. There is also some evidence (see Table 15.3) that, although Asian and Pasifika children have benefited most in

<sup>129</sup> See footnote 6 for details of data source and limitations.

proportional terms from the recent increase in ECE enrolments and participation, it is European/Pakeha families and their pre-school children who have benefited most in numerical terms. While such an outcome might be expected given the sheer numerical dominance of European/Pakeha people within the population, especially outside of Auckland, European/Pakeha already had the highest rate of participation before the rapid increase in ECE funding from 2006.

Rates of ECE participation by Māori have actually declined over the past five years despite the increase in the numbers of Māori children actually enrolled in a licensed ECE centre or service.<sup>130</sup> This paradox is due to the recent baby boom of which almost one third are Māori children. This has meant that the population of Māori pre-schoolers has grown at a faster rate than their enrolment in ECE. Based on the enrolment rates reported in Table 15.6 for Māori and non-Māori children, if Māori enrolment rates are to be lifted to those of non-Māori then an additional 17,000 to 18,000 places are needed.<sup>131</sup>

This decline in enrolment rates may also be a feature of Pasifika families' ECE experience given their share of recent births compared with their share of ECE enrolments (see Table 15.5), although there are no reliable estimates of the Pasifika population on which to confidently base this claim. However, estimates of the shortfall in Pasifika enrolments suggests that an additional 10,000 to 12,000 places would be required to bring them up to national average enrolment rates.<sup>132</sup>

Importantly, there is no evidence that the relative disadvantage in the ECE stakes of Māori and Pasifika families and of poor communities has been addressed by the huge increase in ECE funding between 2006 and 2011 (see Table 15.1). There is no evidence that this neglect was intentional, it has been a consequence of the ECE policy settings.

Unlike the compulsory and tertiary education sectors, the early childhood sector has no public agency responsible for planning the supply of educational services. Since its inception, the early childhood education sector's growth has been driven by local initiative rather than need: kindergartens, playcentres, and more recently Kohanga Reo were all initiated by local community efforts. This meant that if a community had high levels of transience or lacked leadership or discretionary income, pre-school educational opportunities were patchy or non-existent.

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130 In 2006, 32,351 Māori children aged under five were enrolled in a licensed ECE service out of a total estimated population of 73,040, providing an enrolment rate of 44.3%. By 2010, 38,288 Māori children under five were enrolled in ECE from a total population of 89,160 meaning an enrolment rate 42.9%. In 2006 72.7% of three- and four-year-old Māori children were enrolled but by 2010 this rate had fallen to 69.9%.

131 For under 3s this is 41%–27% = difference in enrolment rate of 14% x 55,850 in the under-3 population = 7,819 + for 3- and 4-year-olds to lift enrolment rate from 70% to 100% = 30% difference x 33,310 = 9,993.

132 Birth statistics report that up to 10,000 children with Pasifika descent are born in New Zealand each year. As 75% of these children have two parents who identify as Pasifika it is likely that between 7,500 and 8,500 children will be identified as Pasifika on their enrolment in school each year. At a national average ECE enrolment rate of 60% this would mean that between 22,000 and 24,000 Pasifika children would be enrolled in ECE. In 2010 there were 12,111 children enrolled (see Table 15.3).

Institution type	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Kindergarten	45,439	45,169	45,109	45,287	44,920	44,435	43,695	41,487	39,346	37,600
Play Centre	14,786	14,879	15,200	15,440	15,059	14,888	14,664	14,929	15,171	15,049
Education & Care Centre	73,192	76,246	78,967	81,096	83,889	86,059	91,733	97,756	101,424	109,204
Homebased	8,546	8,591	9,591	9,922	9,770	9,802	11,073	13,065	15,054	17,084
Te Kohanga Reo	9,546	10,389	10,319	10,418	10,070	9,493	9,236	9,165	9,288	9,370
Correspondence School	947	913	991	922	813	577	737	591	627	617
<b>Total</b>	<b>152,504</b>	<b>156,187</b>	<b>160,173</b>	<b>163,085</b>	<b>164,521</b>	<b>165,254</b>	<b>171,138</b>	<b>176,993</b>	<b>180,910</b>	<b>188,924</b>
Community based*	69,819	70,437	70,628	71,145	70,049	68,816	67,595	65,581	63,805	62,019
Share community based	45.8%	45.1%	44.1%	43.6%	42.6%	41.6%	39.5%	37.1%	35.3%	32.8%

\*Note: Kindergarten, Play Centres and Kohanga Reo

More recently the extension of funding to private sector operators and to social service agencies has seen an expansion of ECE centres and services into communities where some level of co-payment from parents was feasible. The needs of families unable to afford such co-payments have been overlooked or left to community-based ECE providers with long waiting lists to look after. These community providers have not fared well in this new environment as indicated in Table 15.11 above which shows both a relative and absolute decline in community-based ECE providers especially since 2006.

## Conclusion

It is a great pity that the Labour Government did not address the inequity of access to ECE as part of its expansion of ECE budgets. The system we have now remains inequitable but is twice as expensive, and there appear to be no easy answers for addressing the identified two-fold and overlapping deficits. There is the deficit created by the children not enrolled in ECE, principally Māori and Pasifika children. The second deficit is where ECE centres are missing from in a spatial sense. Most likely these missing ECE centres would otherwise be found in suburbs populated by Māori and Pasifika families and in small and medium-sized towns populated by Māori communities. However, the highest deficit is in Auckland.

There is firm evidence of the benefits of good quality early childhood education for later educational success; and that those who miss out on meaningful access to ECE share a sequence of misfortunes and missed opportunities throughout their lives. This is not to say that more equitable access to ECE centres and services is the silver bullet to reducing inequality and rates of welfare dependency, but it is an important cornerstone of any credible attempts to do so. The ideal response to these deficits in ECE availability should not be more of the same. The model of market-based provision and demand subsidies has clearly not worked for New Zealand's poorest and most vulnerable children.



## Recommendations

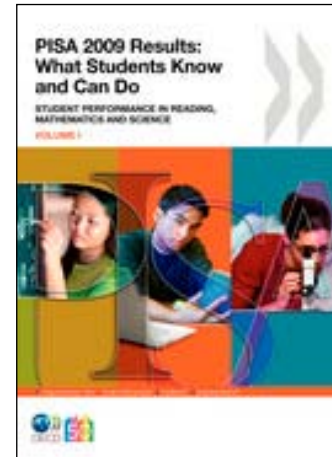
- Government commits to reducing reliance on private sector provision of early childhood education and care as a long-term objective, aligning the early childhood sector with primary education in terms of accepting government responsibility for both quality and access expectations in order to ensure equitable provision;
- Government enables adequate funding provision to ensure that all early childhood education centres are fully staffed by qualified teachers, and further require ratios of teachers to children and unit sizes to be maintained in accord with quality guidelines;
- Establish a model of ECE provision that is more intentional in terms of who it serves, where it is located and what else it provides to support parents and families;
- Base the new model of ECE provision on a neighbourhood-by-neighbourhood and a town-by-town assessment of future early childhood education needs;
- Start thinking about travel distances in terms of pushing strollers rather than in terms of driving SUVs.

# Chapter 16. A turn for the worse? Some recent developments in the school sector

Vicki M Carpenter<sup>133</sup> and Martin Thrupp<sup>134</sup>

## Introduction

A persistent feature of the New Zealand school system is the so-called 'long tail of underachievement' by economically poor and usually Māori and Pasifika children, and the pattern of much higher achievement by middle class and usually Pakeha and Asian children. The 2009 Programme for International Student Assessment (PISA) results on the Reading Literacy of 15-year-olds, demonstrate that "among the eight top or high-performing countries or economies, New Zealand had the widest range of scores ... between the bottom five percent (5th percentile) and top five percent (95th percentile) of students" (Telford & May, 2010, p. 15). For the most part we see this wide achievement gap reflecting inequitable conditions in New Zealand society with policy changes in housing, health, minimum wages, benefit levels being prerequisites for more socially just school outcomes (Anyon, 2005; Snook & O'Neill, 2010). At the same time we recognise that education policy has a part to play in unequal educational outcomes in the way it influences, directs and resources schools, and allows and encourages teachers and principals to exercise their agency.



Turning then to New Zealand education policy, we note that the issues and recommendations signalled in the previous (2008) version of *Left Behind* are no closer to being addressed. The 'inconvenient truth' of middle-class advantage is as hegemonic as ever, state school zoning systems favour those already advantaged and full service schools, despite their successes, have not gained momentum. There is also the stigmatising of lower-decile schools in the media and amongst parents which continues unabated, the problem that teacher supply is still an issue in lower-decile schools (M. Lee, 2010), and the 'one-size fits all' perspectives that continue to dominate many areas of teaching and teacher education. The impact of child poverty is often underestimated.

Nevertheless, just as education policy could improve the ways it addresses child poverty, it can also get worse. There are a number of recent school policy developments that we view with concern because they have the potential to reinforce social inequalities and the effects of poverty in education. These developments include: more funding to private schools, building schools using public-private partnerships, changes to zoning laws to give more preference to family connections, the contracting out of support services to schools, the development of National Standards, and the proposed 'Teach First New Zealand' scheme in teacher education. Although not much has yet been written by New Zealand academics about these developments (but see, for instance (Carpenter, 2011; Thrupp & Irwin, 2010), plenty of international literature gives reason for concern.

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In the space available here we have decided to concentrate on the last two areas – the development of National Standards, and the proposed ‘Teach First New Zealand’ scheme in teacher education. These are both good areas for illustrating how policies that do not seem to have an immediate connection to concerns about poverty may nevertheless pose threats to the children of the poor in New Zealand. They also well illustrate how our policymakers seem to be often ignoring international evidence in this regard.

## National Standards

Immediately after the election in 2008, legislation to bring National Standards into all primary and intermediate schools was passed and the policy was launched in October 2009 (Thrupp & Irwin, 2010). It is the general assumptions of this new policy, along with its likely effects if it shares of some the researched characteristics of high-stakes assessment systems in other countries that make it a threat to the children of the poor. Here we briefly describe the National Standards policy and its assumptions about children from poor families and then turn to its potentially damaging effects on those children.



New Zealand's National Standards are different from a national testing regime where all students are tested against the same test as in many other countries. Rather they involve teachers and schools using a range of tests (most of which were designed for formative purposes), as well as other indications of a child's level of achievement, to make judgments about a child's achievement against a four-point scale: above; at; below; and well below, the standard. These judgments are made after 1, 2 or 3 years at school in the junior school and then at their year level from years 4–8. As yet there is no formal process of national moderation between schools, although many schools are moderating teachers' judgements internally and in some cases within a cluster of local schools. The policy requires schools to report to parents in 'plain English' about a child's achievement against the National Standards, although schools do not need to use the language of the four-point scale in this reporting. On the other hand, schools do need to explicitly report against the scale when they report annually to the Ministry about student achievement, and from 2011 they are also required to set annual targets for student achievement, again using the four-point scale.

Although National Standards are not a targeted policy, the Government has made much of National Standards being able to address the previously noted long tail of underachievement amongst poor and mainly Māori and Pasifika students. This discursively places the responsibility for addressing the low achievement levels of students from low socio-economic backgrounds on schools and teachers. In doing so the policy represents another iteration of the politics of blame where the quality of student achievement is seen as the result of school-based factors and reference to wider contextual issues such as socio-economic constraints are ruled out as excuses for poor performance (Thrupp, 2009).

The details of the policy often reflect the same unrealistic thinking. For instance one predictable outcome of such a policy is that students from poor families will often start behind and be found 'well below' standard year after year even if they are making progress. But rather than acknowledging that this is a likely effect of the policy, the Government expects schools to rapidly accelerate the progress of students from disadvantaged backgrounds so that they catch up with their more advantaged peers. In practice this means that junior teachers are expected to take children who can often barely hold a pencil or know any letters of the alphabet at five years old and catch them up with students who can already read well and will continue to draw on considerable material and cultural capital throughout

their primary school lives. Disadvantaged students are also supposed to meet national standards that have turned out to be 'aspirational', set in some year levels even above national test means. Finally, little additional support is being made available to schools except for fifty 'Student Achievement Practitioners' (SAP) who will travel from school to school dispensing advice. As another indication of the politics of blame, these SAPs are not described as helping schools deal with 'disadvantaged' children, but with children who are 'under-served by schools' (Ministry of Education, 2011a).

Many other problems caused by the National Standards for the children of the poor remain to be seen but can be predicted from research findings about the effects of high stakes assessment in other countries such as England and the USA. They include:



- schools becoming more unwilling to enrol low socio-economic students because their level of performance is lower than middle-class students ('commodification' of students (Bagley, Woods, & Glatter, 2001));
- a narrowing curriculum focus which becomes less likely to tap the interests of low socio-economic students (Alexander, 2009; Hursh, 2008; Nicholls & Berliner, 2007; Stobart, 2008);
- the needs of low socio-economic students being overlooked because schools are busy prioritising the teaching of those students whose achievement will make the most difference to schools' reputations ('educational triage' (Gillborn & Youdell, 2000)); and
- damaging effects on students' conceptions of themselves as learners ('i'll be a nothing' (Reay & William, 1999)).

Of course research is required to indicate whether these problems found internationally are going to be echoed in the New Zealand context, even if some variant of these impacts is quite predictable. The second author is undertaking such research through the 'Research, Analysis and Insight into National Standards' (RAINS) project, a three-year study investigating how the Boards of Trustees, leadership teams and teachers of New Zealand primary and intermediate schools are actually responding to the National Standards in everyday practice and how this response is affecting student learning. This project is also concerned with the 'enactment' of the National Standards, for instance how individuals in different roles and with different educational beliefs, histories and political stances are interpreting information to create particular practices, how the National Standards interact with other policies being enacted in schools such as the *New Zealand Curriculum* and the Leadership *BES*, and how different school contexts (socio-economic, ethnic, school size and type, urban/rural, etc) and access to resources are influencing practice. Looking at this complexity within and across schools will illuminate whether there are patterns common enough to characterise the National Standards as genuinely national or whether they will reflect local differences and inequalities.

For low-decile schools there is also considerable risk of the development of public league tables of National Standards results as they are unlikely to score well in these compared to middle-class schools. The impact of such league tables of performance would be far-reaching as they would intensify public demand for higher achieving middle-class schools, leaving low-decile schools increasingly disadvantaged in terms of public and professional perception, student enrolments, funding and staff recruitment. Eventually some low socio-economic schools may be deemed no longer viable and closed, leaving disadvantaged communities without local schools. It would not be surprising then if it were schools dominated by students from low socio-economic backgrounds that

were most concerned about National Standards. At the same time, because National Standards are also being criticised by teachers and principals in schools of all deciles, there is an important opportunity here to connect the concerns of the poor to middle-class interests that are often more powerful and more likely to be listened to.

Teach First NZ (TFNZ) scheme



At the moment, with few exceptions, initial teacher education (ITE) takes place in Faculties of Education in Universities, or Wananga. BEd or BTchg degrees take up to four years to complete, and graduates usually teach in primary schools. Intending primary and secondary teachers who already have an undergraduate degree are able to complete a one-year graduate ITE programme. All ITE includes placements in schools, learning the profession alongside expert practitioners. After graduation the first two years in the classroom, as provisionally registered teachers, involves 4 to 4.5 days per week classroom contact. Teacher professional development overseen by professional colleagues is also required. Full teacher registration may then be conferred provided the Beginning Teacher is showing competence (see [www.teacherscouncil.govt.nz](http://www.teacherscouncil.govt.nz)).

It has recently been signalled that a Teach First New Zealand (TFNZ) scheme of ITE is likely to be introduced in New Zealand in 2012 ([www.teachfirstnz.org](http://www.teachfirstnz.org)). This imported model mirrors overseas initiatives such as TeachFirst in the UK, Teach for Australia, and Teach for America. By 2013, 20 selected 'top graduates' will be fast tracked into hard-to-staff positions in Auckland and Northland's low-decile secondary schools. The students will have completed a six-week summer school ITE programme. For the following two years they will be working as unqualified teachers in economically poor communities. TFNZ proponents (an independent charitable trust with business funding) emphasise the attraction of top graduates, and the positive effects such people are likely to have on low-decile schools. Their advertising brochure places emphasis on the 'aura of selectivity, similar to leading corporate firms', with the programme providing 'professional and personal leadership development' (TFNZ, 2011, p. 15). The proponents' expectations are that TFNZ alumni numbers will reach 90 by 2017, and that the programme will expand into other parts of New Zealand. In terms of the graduates, teaching will fulfil a strong service component (rather like VSA) for their later leadership career aspirations, probably in business.

The scheme will have its attractions for both students and schools. For the ITE students it offers a full-time salaried position for two years while learning how to teach in schools. As indicated above, it is being marketed in a way that will appeal to the idealism of many young people. For economically challenged schools with high staffing needs, the possibility of having someone to teach a class may also be appealing, even if the graduate is not a registered teacher.

The TFNZ programme can, however, also be viewed as a token ITE programme combined with a shallow 'learning on the job' model of teacher education. We have a range of concerns about this development. First, given that New Zealand and overseas research demonstrates the ability to form strong relationships with students is a prerequisite for effective learning in low-decile schools (Bishop, Berryman, & Richardson, 2001; Carpenter, McMurchy-Pilkington, & Sutherland, 2002; Delpit, 2006; Hawk, Cowley, Hill, & Sutherland, 2002), it is hard to envisage how 'parachuted', probably white and middle-class students, with very limited ITE will achieve that. Second, good graduates are already attracted to teacher education, B+ grade averages and higher have been common in recent years; that aspect of the TFNZ rationale appears redundant. Third, a six-week programme signals a very serious and worrying 'dumbing down' of teacher expertise and professionalism. Fourth, TFNZ is

funded by a charitable trust. Why is the state abdicating responsibility for its failure to address the 'long tail of underachievement'? What is the long-term agenda of funders? Business (for example, Chapman Tripp, Deloitte, KPMG) is likely to gain some control of ITE curriculum – the six-week programme they advocate will unquestionably limit curriculum and pedagogical content. Whose interests will be served by TFNZ? The winners, we suggest, are unlikely to be pupils and their communities.

Research on similar overseas programmes, such as Teach for America (TFA) is not encouraging. It tends to demonstrate that such programmes have made very little positive difference to overall student achievement. TFA was established over 20 years ago, and thousands of young people, selected as top graduates from various universities, have completed five weeks of teacher education and have been mentored into two-year positions in America's hard-to-staff poor urban schools. Yet the programme has also been widely criticised. Labaree (2010, p. 52) has suggested that TFA's approach:

*reinforces an old and dangerous vision of teaching as a form of slumming, a missionary effort by the White middle class to elevate minorities and the lower classes through the medium of education.*

Darling-Hammond (1994) is another researcher who is scathing about the TFA programme. She describes it as bad for recruits (they are ill-prepared), for schools (they lack support and resources and the programmes are disruptive), and children (they are poorly taught). She argues that TFA does not look at teaching as a profession but instead relies on enthusiasm and youth, that TFA "cheapens education" because it says that "anyone can teach". Darling-Hammond, (1994, p. 33) argues for "alternatives to putting ill-prepared recruits in classrooms for a revolving-door trip into and out of teaching". With colleagues she has also found TFA recruits less effective than certified teachers (Darling-Hammond, Holtzman, Gatlin, & Heilig, 2005).



In our view New Zealand does not have the population of teacher education students to support truly parallel and comprehensive programmes for low socio-economic schools such as those that exist in the USA (see Leland & Harste (2005) for an example). We could, however, do far more within existing ITE programmes to better serve the needs of children in poverty (see Carpenter (2010) for a programme initiative). A critical evaluation of how current ITE programmes are meeting the needs of lower-decile schools, followed by appropriate changes, would be a better way forward. ITE demographics and programme content matters. It matters that those leading and involved in ITE are aware of the seriousness of our current situation for the education of children of the poor, and are well prepared and willing to address the social justice issues New Zealand faces. It also matters that adequate ITE programme time and curriculum content is made available for students to grapple with the deep and complex attitudinal and professional issues involved with teaching in lower-decile schools.

Suitable attributes of teachers for economically poor rural or urban communities need to be a key focus. In such places, many are Māori and Pasifika; lots are on benefits; work is low paid; community health in general is poor; home ownership is minimal; household overcrowding can be the norm; teacher and student transience is high (more than 60% per annum in some schools); student attendance can be erratic; large numbers of children can arrive at school hungry or without lunch;



many students do not have English as their first language; and most adults have minimal education. At the same time, children are very loved by their families, and most have strong cultural and religious beliefs which are central to, and binding of, their communities. Communities have high expectations that schools will educate their children well. Within the macro-level structural limitations which can impede their lives, parents are invariably supportive of their children's education.

An ideal teacher for such communities is, like all other teachers, intelligent, knowledgeable about subject areas and teaching strategies, hard-working, and compassionate. The ability to form strong, positive and empowering relationships with pupils and their communities is, however, the extra and baseline prerequisite for successful teaching in lower-decile schools (Carpenter, et al., 2002; Hawk, et al., 2002; Jeynes, 2007; Macfarlane, Glynn, Cavanagh, & Bateman, 2007). More than teachers working in wealthier contexts, lower-decile school teachers need to understand the politics of pupils' lives and be advocates for social justice. At the same time teachers in lower-decile schools must have very high expectations of all learners.

How successful is ITE at preparing teachers for effective teaching in such contexts? A recent Ministry of Education report (Kane, 2005) indicated that ITE content requires serious critical reflection and change. Aside from Maori-centred providers, the researchers found there was "less compelling evidence ... that (ITE) qualifications are underpinned by critical themes or ethics, such as commitment to inclusion or social justice" (Kane, 2005, p. xiv). An identified implication of the findings was that student teachers should be required to demonstrate how they work effectively with Maori and Pasifika children (Kane, 2005, p. xxi). All of this takes time and suggests more rather than less, and more tightly focused ITE preparation is required before students are given responsibility for classrooms of pupils.

ITE demographics also require greater attention. Most of today's successful ITE applicants have a white middle-class habitus, and by far the largest percentages of applicants are women. The New Zealand teaching workforce was 76% women in 2010, and 74% were Pakeha or European. Meanwhile our national demographic is changing. By 2026, Māori, Asian and Pasifika populations are likely to form 60% of the population (Statistics New Zealand, 2010b). Māori, Pasifika and working-class children generally comprise our long tail of underachievement – they are those our current system is failing. While we are not arguing that an ethnic match is essential for effective teaching, children can be motivated by observing and being with teachers of the same ethnicity who are in positions of authority and this positioning may be used to advantage by such teachers.



In short, we maintain that ITE student selections and programme content can and should be a stronger part of the solution. We do not share the optimism of the TFNZ programme's proponents, and have serious misgivings about the effects TFNZ recruits might have. Children in poor communities deserve more than an education funded by charity, which places teachers in their classrooms who will be ill-prepared by the standards of today's ITE, let alone by the standards of ITE that was really focussed on meeting the needs of children in rural or urban, economically poor communities.



## Conclusions

This paper has traversed a number of themes relevant to schools and child poverty. Perhaps one of the most important points illustrated by our discussion of National Standards and Teach First New Zealand is that the policies and practices which need to be adapted or avoided to reduce the impact of child poverty in education are often much less obvious than, say, school programmes to provide food to poor children, even if that is also worthwhile. Rather there are numerous aspects of schooling which need to be addressed, including policies which are currently being rolled out. Also notable is that while both the National Standards and TFNZ development make some claim on being different than what is happening internationally, there is much relevant international research which suggests caution about these and other recent policies.

The willingness of proponents to ignore or dismiss such research is remarkable but the fact is that neo-liberal policy is often not evidence-informed. For instance in the US, Lubienski (2008) points out that although the body of academic research evidence does not support US school choice programmes, these continue to grow because choice has increasingly become an ideology supported by advocacy groups despite whatever the research 'says'. Here in New Zealand we think a careful reading of relevant research suggests alternatives to both National Standards and TFNZ that would better serve the children of the poor and indeed New Zealand society as a whole.

## Recommendations

- That the New Zealand Government acknowledge that international research suggests that the National Standards policy may have perverse and damaging effects;
- That the Government investigate such effects thoroughly and respond accordingly rather than pushing ahead with the policy regardless of its impact;
- That the Government look for ways to avoid further damage being created by 'league tables' of National Standards achievement, acknowledging that it is not feasible to take full account of school context in such tables;
- That the Government takes sustained action towards addressing the supply of quality teachers to low-decile schools in ways that do not involve mirroring charity and business-based models which overseas research have shown to be largely ineffective;
- That teacher education providers take greater account, in teacher education and postgraduate courses, of the social justice issues surrounding education and children in poverty;
- That teacher education providers actively develop and promote courses for teachers wishing to teach in lower-decile schools. Such courses would focus on empowering and culturally appropriate teaching and learning in lower socio-economic contexts.

# Chapter 17. Youth and employment

M. Claire Dale,<sup>135</sup> and Lucie Trask, Nicole Slight, Sarah Larsen, and Caleb McConnell<sup>136</sup>

*It is always tempting for governments to treat the young as being expendable. They don't vote, they have few commitments, and most of them seem able enough to cope with whatever gets thrown their way. Here – and elsewhere around the world – the government seems willing to exploit that resilience, and be relatively complacent about its failure to provide outlets for the intelligence and creativity of*



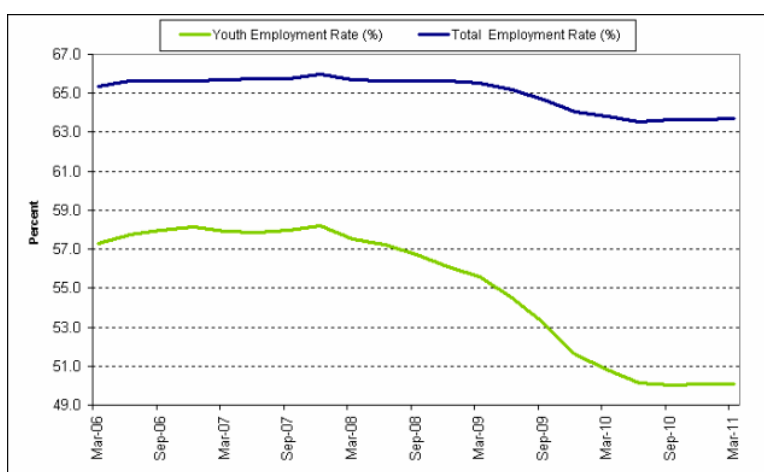
*the next generation.... Moreover, ... an entire generation of students who have been unlucky enough to graduate in a recession now risk being passed over by employers as 'damaged goods' once the upswing in economic activity finally arrives. (G. Campbell, 2011)<sup>137</sup>*

## Youth unemployment in New Zealand

High numbers of unemployed youth is a major national and international issue. The Household Labour Force Survey (2010a) showed that most of the jobs lost in the downturn were held by young people. Between December 2007 and December 2009, employment of 15-19 year olds declined by 34,400, and employment of 20-24 year olds declined by 11,300; while employment for the population 25 years and older **increased** by 13,200. Māori youth employment fell by 17% between December 2007 and December 2009, followed by European (down 14%) and Pacific youth (down 12%). Employers appear to prefer older, experienced workers due to perceived attitudes of youth to work and stereotypes of young people's work ethic. It also seems that, when compared to older workers, youth have been concentrated in the most affected industries of hospitality, the retail trade, communication services and construction, and are more likely to lose their jobs (Department of Labour, 2010).

Reasons for the low rates of youth employment in New Zealand (Figure 17.1) and internationally include the impact of the recession: young people are more likely to be laid off due to their lack of skills and experience. Other factors are changes to technology, and increasing use of technology in place of human labour.

**Figure 17.1. Employment Rate , 2006-2011** (Department of Labour, 2011b)



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<sup>137</sup> Thanks to Gordon Campbell for his images and analysis of youth unemployment in New Zealand.

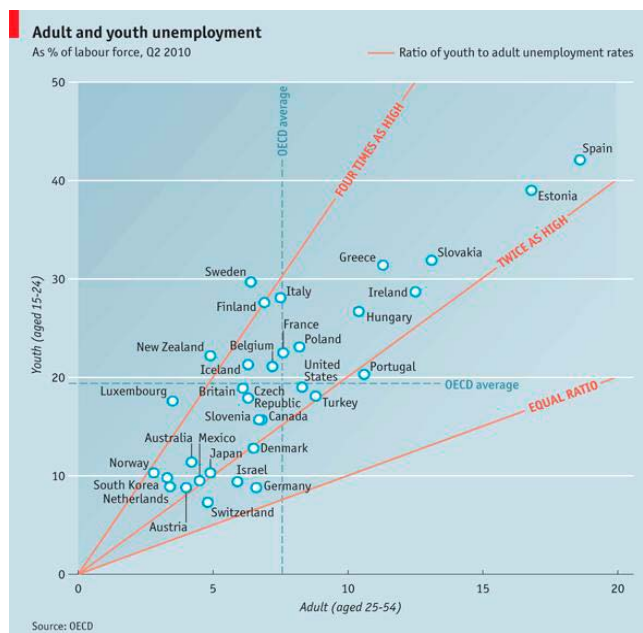
Also, employers do not have time or resources to train young people; and tax cuts have reduced funding for apprenticeships (Tertiary Education Union, 2011). It is worth noting that in Germany and other countries that have maintained provision of, and funding for, apprenticeships, the effects of the economic downturn have not been so concentrated on the young.

In New Zealand, after a major dismantling of the apprenticeship system in the 1970s, the modern apprenticeship was introduced in the 1990s, and now that, too, is due for a major shake-up as it is failing both the funders and the apprentices who are involved. A damning report by the Mayors' Taskforce for Jobs, representing 68 of the country's 73 mayors, has found the system is dogged by dysfunction and tension between industry training organisations and other apprenticeship coordinators: apprenticeships are reaching only 4.2% of Pakeha in the target 16 to 21 age group, 2.9% of young Māori and 1.3% of Pacific youth; and only 12% of the 12,933 apprentices are female. Even among those who started apprenticeships in 2002, only 41% of Pakeha, 34% of Pacific and just 27% of Māori completed their apprenticeships within six years – much longer than the expected three to four years (Collins, 2010).

While New Zealand has a low rate of unemployment at around 6.6%, compared to the OECD average of 8.2%, one in five young New Zealanders are out of work (Department of Labour, 2011b). Data from the OECD (Figure 17.2) for the 2010 September quarter indicated that 19.4% of New Zealanders aged 15 to 24 were unemployed. Some regions are worse off than others. In Dunedin in February 2011, more than one in three of those receiving an Unemployment Benefit were under the age of 25. At the same time, both Otago University and Otago Polytechnic are expecting to limit enrolments (Rudd, 2010). So, young people are being excluded from opportunities for both

**Figure 17.2. Adult and youth unemployment 2010**

(Source: Economist, from OECD data)



employment and education. It is not surprising that the increased pressure on families is coinciding with a rise in violence against family members (Studholme, 2011).

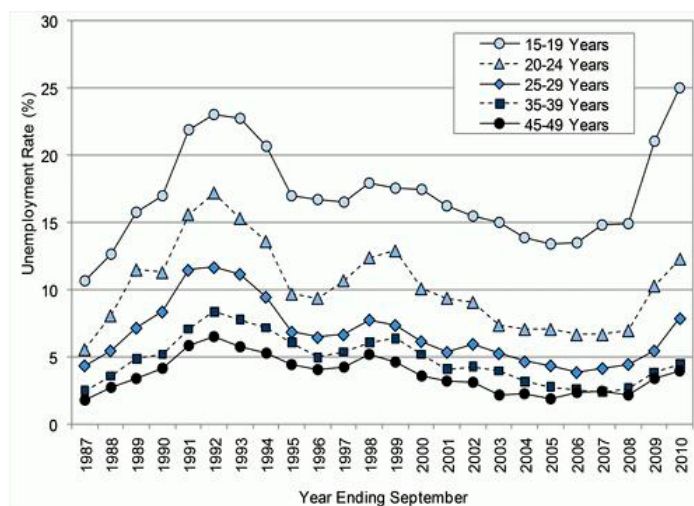
In June 2011, while unemployment across New Zealand was at 6.6%, in Auckland it was 7.9%, and in Northland it was 9.8%, the worst in the nation. Three years ago, when 10% of working-age New Zealanders were on benefits, the figure was already 16% in Northland, and 19% for Northlanders aged 18 to 24. In 2011, while 12% of working-age New Zealanders are on welfare, in Northland it is 21%, and for Northlanders aged 18 to 24 it is 29% (S. Collins, 2011). What is likely to happen to these young people?

*Without employment or training, young people can risk regrettable life choices. The next 12 to 18 months are crucial.* (Black, 2011)

In New Zealand overall, youth are four times more likely to be unemployed than adults. Figure 17.3 shows the long-term youth-to-adult ratio has continued to be high with a spike around the time of the recession.<sup>138</sup>

Included in these unemployed youth figures are those 'Not in Employment, Education or Training' (NEET). NEETs are often from Māori and Pasifika communities, or disadvantaged backgrounds, and drop out of education early. In the December 2010 quarter, compared to national youth average of 16.8%, the unemployment rate for Māori youth was 27.4% and the Pacific youth unemployment rate was 27.2%. For Joris de Bres, the Race Relations Commissioner:

**Figure 17.3. New Zealand's historical unemployment levels by age group** (G. Campbell, 2011)



*Particularly because the population profile of the Maori and Pacific community is such that they are predominantly young, this is an issue that we just have to address for our collective future.* (de Bres, 2010)

There is conflicting evidence about the labour market effect of removal of the (lower) Youth Minimum Wage. When youth wage rates increased, Hyslop and Stillman (2007) found no consistent and robust evidence of any adverse effects of the changes on teenage employment; yet Hospitality Association chief executive Bruce Robertson claims: "Elimination of youth wage has been to a point a disincentive for traditional youth employers." (NZPA, 2011b)

Equal Employment Commissioner Judy McGregor, says:

*The high unemployment of young Māori and Pacific people and the current bias against hiring some young people are issues we all need to be concerned about.* (J. A. McGregor, 2010)

An improvement in education access and opportunities is not a complete solution. Having a university degree no longer guarantees that you will get a good job, and that is becoming increasingly true with each passing decade. Education is not the solution for a society of broadly shared prosperity, we have to build that society directly. As Krugman (2011) argues:

*We need to restore the bargaining power that labour has lost over the last 30 years, so that ordinary workers as well as superstars have the power to bargain for good wages. We need to guarantee the essentials, above all health care, to every citizen.*

University graduates here are being hit by the economic downturn. The unemployment rate of this group is mostly determined by the economic situation in New Zealand. Current graduates are the children of the baby-boomers which means there are extra numbers of graduates. Further issues are that the New Zealand labour market offers mostly service industry jobs and is made up of smaller businesses. Often graduates are too qualified. Employers also see taking on a new graduate as a

<sup>138</sup> Youth wage rates (for those aged 16 to 19) were abolished in 2006 on the grounds of age discrimination.

risk and prefer older, more experienced workers. However, graduates have an advantage as they can often find work overseas or return to further studies.

The persistently high rate of youth unemployment internationally does not diminish the size or urgency of the problem in New Zealand. What is needed is an education system that recognises a diversity of skills and learning styles from the start, and smarter connections with the industries that might want to employ them, as Lincoln University economist Paul Dalziel said in a recent interview (McCrone, 2011):

*The New Curriculum for secondary schools has brought in the right framework. There is the Government's youth guarantee scheme to fund 16 and 17-year-olds on polytechnic courses, and the new trade academies at schools like Christchurch's Linwood College which allow students to spend part of the week learning metalwork in class, then have job training with a local business. New Zealand needs more of these kinds of programmes to make it easier for the young to leap the barriers to getting a first job.*

The work of Higgins and her colleagues (Higgins & Nairn, 2006; Higgins, Nairn, & Sligo, 2010) on transition from school to the post-school world of work and/or tertiary education highlights the contradictions and tensions between the ways in which young people expect this transition to happen, the realities of the contemporary labour market and the expectations of policy makers. The current environment is in fact very bumpy, uncertain and unpredictable, and jobs, if they are available do not follow the smooth, linear path anticipated and reflected in much of the policy focus about job markets and the necessity of qualifications.

Throughout New Zealand, there is a range of mentoring services to assist in making good decisions throughout secondary and tertiary education, and to aid the transition from education to employment.<sup>139</sup>

There are also youth-to-work initiatives operating in many regions, and several outstanding examples of regional good practice. McGregor (2010, p. 9) refers to the Incubator programme in Hawke's Bay targeting low-decile schools; the Wonderful Wāhine programme



targeting young Māori women at Nelson Girls' College; and in Otorohanga, the Trade Training Centre which has kept apprenticeship completion rates above 90% compared to a less than 20% national average. In Dunedin, February 2011 figures showed that more than one in three of the people receiving an Unemployment Benefit was under the age of 25, which has spurred the Methodist Mission to offer a pilot called Make A Plan (MAP),<sup>140</sup> targeting students who have successfully passed the National Certificate of Educational Achievement (NCEA) Levels 2 or 3 but missed out on acceptance at a university or polytechnic, and are "too qualified" to go on Tertiary Education Commission or MSD-funded 'second-chance' learning courses (Black, 2011).

In contrast to the non-government-organisation (NGO) responses, the Government is hoping that "boot camp will sort youth unemployment" (Wright, 2011). The eight-week military activity camps (Macs) run near Christchurch cost about \$36,000 for each participant, and so far 36 offenders aged 14 to 17 have completed a course as a last resort to turn their lives around. While the Social

<sup>139</sup> See, for example, the Youth Mentoring Network: <http://www.youthmentoring.org.nz/about/index.cfm>.

<sup>140</sup> The MAP programme includes art, music, voluntary service, as well as off-site elements aimed at expanding the abilities, self-reliance and group skills of the participants. While the primary focus is on the next step after MAP: further education through entry to Polytechnic or University, and work, the programme includes 'leaving home' skills like cooking, budgeting, tenancy issues, and dealing with agencies.



Development Ministry and Child, Youth and Family youth justice services are unable to disclose the number and nature of offences committed by the participants before and after the camps, evidence in New Zealand and internationally shows that short sharp programmes like boot camps have a very high recidivism rate (Torrie, 2011). Social Development and Employment Minister Paula Bennett's plans include investing \$55.2 million over the next four years into three programmes to help youth employment. This money is taken from other spending, such as the Community Max Scheme which is to be axed.<sup>141</sup> The programmes in favour are:

- Limited Service Volunteer courses with the army, to get a further \$25 million;
- A new wage subsidy called 'skills for growth' to get \$17.2 million;
- The existing wage subsidy scheme Job Ops<sup>142</sup> is to get \$13 million (Bennett, 2009).

The increasing cost of tertiary education, and student loans

In 2010 Victoria University increased its student fees by 5%, following a trend that has been apparent for the past 10 years across all New Zealand universities. In the same year student levies at Victoria were increased to \$514, a 94% increase (Victoria University Student Union, 2010). The average cost of a university course per year in 2011 is between \$5,000 and \$6,000. Such high fees act as a deterrent when young people are weighing up whether to study or whether to enter the workforce. This cost impacts disproportionately on students from lower socio-economic backgrounds, and students who do not have the necessary financial or social support. In 2009, the retention rate of Maori students in tertiary education was 54% (Education Counts, 2011). A significant reason for the low retention rate could be the increasing cost of education. Also, there are many students leaving secondary school who cannot consider further study toward tertiary qualifications because of the increasing cost.

In 2006, the Labour government introduced the interest-free student loan scheme. Students can borrow for their course fees, and for up to \$167 per week for living costs. Depending on their individual situation, students may be entitled to government allowances; and can apply for scholarships. These schemes are helpful, but they do not alter the fact that nearly three-quarters of students enter the workforce with an average debt of \$15,000. The high university costs force the average New Zealand student to incur a student loan in order to pay for their education. "Nearly 900,000 people have taken student loans since the scheme started (1992), and more than two-thirds have not fully repaid the money." (Binning, 2010) In 2009, 199,000 students (71% of all students) borrowed \$1,389 million in student loans. Entering the workforce with a \$50,000 student loan leaves students with limited prospects. The common goal of graduates has changed from buying a home to paying off their student loan.

The current Government has repeatedly said that the current interest-free student loans policy is fiscally unsustainable, should not have been introduced, and is preventing them from being able to balance the books as they would like. The Government is trying to ensure outstanding loans are repaid, but Inland Revenue has had to write off millions of dollars of the debt because of death and



141 The Community Max jobs included: Ureweras: paying young people to catch and tame wild horses; Kawerau: alter second-hand clothes for six months; Northland: over \$100,000 was spent on a now overgrown garden.

142 The Government's "Job Ops" scheme offers 4,000 opportunities of a \$5,000 wage subsidy over six months to help low-skilled young people find work.

bankruptcy and accepts that some of the money will never be repaid. As at 30 September 2010, the combined total amount overdue from New Zealand and overseas-based borrowers – was more than \$316 million (Inland Revenue Department, 2011).

While Government has repeatedly affirmed the pre-election promise not to remove interest-free student loans, it has introduced a 10% bonus for voluntary student loan repayments that total \$500 or more in a tax year (1 April to 31 March), provided all other student loan obligations have been met.<sup>143</sup>

Student loans are not directly a tertiary education funding issue; they actually operate as a tax on education, and, because of the way they are designed, are a regressive tax that means the poorest students and graduates pay the most tax on their education.<sup>144</sup> If student loans continue to rise, they will serve as a greater deterrent for individuals to seek tertiary education. They will also deny a greater number of students the opportunity to further educate themselves at a university or polytechnic. It thus falls on the Government to decide how much they value education, and tertiary students.

The changes to the tertiary loan scheme announced in the 2011 Budget on 19 May, promoted as “Key student support initiatives” include:

- *Restricting student loan eligibility for those with an overdue student loan repayment obligation of \$500 or more who are in default for more than one year.*
- *Restricting borrowing for people aged 55 and over to tuition fees only.*
- *Removing the entitlement for part-time full-year students to borrow for course-related costs.*
- *Holding the student loan repayment threshold at \$19,084 until 1 April 2015.*
- *Requiring every new loan application to include a contact person as one of the conditions of accessing a student loan.*
- *Shortening the repayment holiday for overseas-based borrowers from three years to one year, and requiring borrowers to apply for the repayment holiday and provide a New Zealand-based contact person before they go overseas.*
- *Improving fairness for New Zealand-based borrowers by beginning to broaden the definition of income for student loan repayment purposes, and investigating other options to further broaden the definition of income in the future.*
- *Extending the exemption to the two-year student loan and allowance stand-down for permanent residents and Australians to include the sponsored family members of protected persons.*

Revenue Minister Peter Dunne and Tertiary Education Minister Steven Joyce say that the student support changes will limit lending to borrowers who are less likely to repay their loans, while ensuring that borrowers are meeting their repayment obligations. “The student loan scheme still remains one of the most generous in the world, offering interest-free loans for all borrowers who remain in New Zealand.” (S. Joyce & Dunne, 2011)

## Gender bias in employment

The latter half of the twentieth century saw dramatic changes to the lives of New Zealand women. They not only entered the workforce in record numbers, but began entering occupations that had

<sup>143</sup> See [http://www.ird.govt.nz/studentloans/payments/voluntary/bonus/sl-voluntary-repayment-bonus.html?utm\\_source=emailbo&utm\\_medium=newsletter&utm\\_campaign=2010MarSLNotifyMe](http://www.ird.govt.nz/studentloans/payments/voluntary/bonus/sl-voluntary-repayment-bonus.html?utm_source=emailbo&utm_medium=newsletter&utm_campaign=2010MarSLNotifyMe).

<sup>144</sup> See Tertiary Education Update 24 March 2011: <http://teu.ac.nz/category/news/tertiary-update/>.



been previously dominated by men (Ridgeway, 1997, p. 218). However, women are still not equally represented in most top-level professional roles (Human Rights Commission, 2010c, p. 2) and most importantly, women have not achieved pay equity with their male counterparts. Recent statistics indicate women earn 11–13% less than men overall (Human Rights Commission, 2010b, p. 66).



Equal education has not guaranteed women equal standing as employees; and part of the answer to this could be the existence of male-dominated networks in many professions that women have not been able to penetrate (Justice Susan Glazebrook, 2010). It also seems clear that ingrained gender bias is still present in New Zealand society.

Inequality persists despite the dramatic increase in women's participation in tertiary education; and despite the Equal Pay Act 1972, the Human Rights Act 1993, the State Sector Act 1986, and the *Gender Inclusive Job Evaluation Standard 2006*, that were introduced to ensure equal treatment in the workplace for New Zealanders. This inequality occurs in both the government and corporate sector (Human Rights Commission, 2010b, p. 2) and has important implications for young women moving from tertiary education into employment. The inequitable remuneration which women experience results in young women having a triple jeopardy in the workplace: they are discriminated against in recruitment and employment because they are young, and because they are female, and if they are employed, they are paid 11% to 13% less than their male counterparts. If the current gender bias is to be challenged there is a need for strong statutory support and most importantly, a change of attitude in society. But, like youth unemployment generally, this is another issue that is off the radar in New Zealand, and not given the attention it deserves.

#### Illiterate and innumerate in New Zealand

Results for 2010 show nearly 20% of students did not achieve the literacy requirements of NCEA and almost 15% did not achieve the numeracy requirements (NZQA, 2011). According to the 2011 New Zealand Qualifications Authority (NZQA) report, literacy "is the written and oral language people use in their everyday life and work. It includes reading, writing, speaking and listening". NZQA's definition of numeracy is:

*... the bridge between mathematics and daily life. It includes the knowledge and skills needed to apply mathematics to everyday family and financial matters, work and community tasks" (NZQA 2011).*

From 2012, instead of eight credits in English and Mathematics respectively at Level 1 to meet the literacy and numeracy requirements of NCEA, students will need to achieve 10 credits (NZQA, 2011), and will be able to achieve these credits in a wide range of subjects. Higher levels of literacy and numeracy in the workplace lead to better staff attendance and retention, higher quality work with fewer errors, and increased levels of productivity and customer service (Retail Institute NZ, 2010). Universities and employers in New Zealand have complained about the levels of literacy and numeracy amongst school leavers. Research has shown that students who leave school with low levels of literacy and numeracy are less likely to be promoted, will receive lower wages, and are more likely to be unemployed or in jobs with poor job security (Bynner, 2004, p. 39).

*The consequence of not succeeding in this area [employment] is the phenomenon that poses perhaps the biggest threat to cohesive society, social exclusion. (Bynner, 2004, p. 45)*

It will be several years before we will be able to see what difference the changes to the NCEA requirements will make. What we already know is that literate and numerate young people are more likely to have choice, possibility and opportunity to succeed.

## Summary

It is particularly unfortunate that no consideration was given in the latest Budget to supporting and funding the apprenticeship system. Action is needed regarding: reviewing the secondary school curriculum to ensure it is meeting the students' needs and supporting their diverse learning styles, and relationships are built with industry; affordable access to tertiary education; support for apprenticeships; and addressing issues of inequality, including gender inequality. If nothing is done, youth unemployment will continue to increase. This, in turn, will compound youth disaffection, marginalisation and exclusion.

## Recommendations

- All political parties commit to a substantial reduction of youth unemployment rates as part of the 2011 election, develop a range of policies to achieve this and evaluate and monitor those policies;
- Create and fund additional training opportunities, including apprenticeships and mentor services;
- Develop a fuller range of training programmes and job opportunities for Māori and Pasifika young people to reduce their unemployment rates;
- New incentives for employers to employ young workers;
- Open up tertiary education opportunities for further study and skill development until the economy improves;
- The education system needs to recognise the diversity of skills beyond the academic and develop these;
- Support and develop opportunities for school students to make connections with industries that might want to employ them;
- Require a commitment from New Zealand employers to monitor their employees and prioritise remedying gender inequity.

# PART FIVE

## Chapter 18. The costs of child poverty

John Pearce<sup>145</sup> and Steve Poletti<sup>146</sup>

### Executive Summary

Estimates of the national costs of child poverty exist for the UK and the USA, but although much detailed work on specific aspects of cost has been done no comprehensive assessment of the costs of child poverty to the New Zealand economy has been produced.

The impact of child poverty on the national economy arises primarily through the 'poverty of experience' of children who grow up in poverty. It is manifested through reduced lifetime contribution to the economy; through higher risks of ill health; and through greater involvement in crime.

We review the international literature for countries comparable to New Zealand and find estimates for the costs of child poverty to the economy of 3% to 4% of GDP.

Our own calculations for New Zealand find that the costs of child poverty are in the range from 3.8% to 4.6% of Gross Domestic Product (GDP), a cost for each of the 200,000 children growing up in poverty over their lifetime of approximately \$600,000, at an annual cost of \$35,000 a year. This translates to an annual cost to each New Zealand wage earner of approximately \$4,000.

### Introduction

As detailed elsewhere in this report, children growing up in households which experience persistent poverty face enormous hardship and distress. There is a compelling case on grounds of fairness and social justice to introduce policies to alleviate child poverty.

This chapter examines a different argument. Children who grow up in poverty are likely to be less productive in later life, more likely to be involved in criminal activities, tend to impose an increased burden on the health system, and to die at a younger age. Each of these tendencies imposes a cost to society. The cost may be direct or it may be an opportunity cost. If children have better access to resources at an early age, they are more likely to end up as productive and healthy members of society.

A recent paper by Heckman and Masterov (2007, p. 447) from the University of Chicago (no less!) summarise the argument thus:

*We argue that, on productivity grounds, it appears to make sound business sense to invest in young children from disadvantaged backgrounds. ...Early interventions that partially remedy the effects of adverse early environments can remedy some of the damage done by disadvantaged families and have high economic return relative to other policies. They will benefit not only the*

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*children themselves, but also their own children as well as society at large...An accumulating body of evidence shows that early childhood interventions are more effective than interventions that come later in life. Remedying early disadvantages at later ages is costly, and often prohibitively so. This is because of the dynamic nature of the human skill formation process. Skill begets skill, learning begets learning. Early disadvantage if left untouched leads to academic and social difficulties in later life. Advantages accumulate, so do disadvantages.*

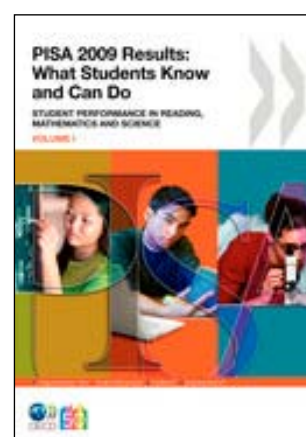
We examine some of the evidence behind such statements and attempt to derive an approximate quantitative figure of the cost of child poverty in New Zealand. Many of the studies we cite are from the UK or the USA, as unfortunately there has been little domestic research on this area. However the costs of child poverty, as a fraction of GDP, are broadly the same in both of those countries, and we have no reason to suspect the figures would differ greatly in New Zealand. In the last section, we report on some preliminary estimates arrived at using New Zealand data.

Our overarching framework is that child poverty (actually family poverty) means an adverse environment for children to grow up in, which in turn leads to a 'poverty of experience'. Firstly, poor educational outcomes are an important contribution to lower lifetime earnings. Secondly, children growing up in disadvantage are more likely to resort to crime in later life. Thirdly, poor health, both in childhood and later life, is strongly correlated with child poverty.

These factors contribute to a vicious inter-generational cycle where children who grow up in poverty become parents likely to have lower income and education, which impacts adversely on the environment for their children and contributes to poor life outcomes.

We will show that the income and educational attainment of parents count equally in determining the lifetime income of the child. This means that the impact of eliminating childhood poverty will be significantly greater in the long run: increased resources for children leads to better educational outcomes and increased income as adults, breaking the vicious cycle described above. It also means that other interventions, apart from eliminating child poverty, are likely to be necessary to allow disadvantaged children to realise their full potential.

Traditional approaches to estimating the cost of child poverty have compared the outcomes for children growing up in the lowest socio-economic group with outcomes for the rest of society. This approach, focussed on income, or family deprivation<sup>147</sup> as a measure of poverty of experience, underestimates the true impact of the 'poverty of experience' in society. For example family culture is clearly an important factor. Evidence for this is found in the OECD survey of educational performance (PISA, 2009, p. 62) which identifies 'resilience' as the ability to rise above the consequences of poverty. That study's finding that children from deprived backgrounds in China, Korea and Finland do considerably better in educational tests than expected suggests that low income is only a proxy for 'poverty of experience'. Many children in families that are income poor may still live in a family environment which enables them to overcome disadvantage and achieve their full potential. Conversely many children in families with income above the poverty line suffer poverty of experience which reduces their opportunities in later life.



147 In New Zealand the Deprivation Index is used as a measure of socio-economic status. This measures income, employment status, beneficiary status, access to a car and telephone, single parent status, qualifications, home ownership, and bedroom occupancy rate.

That low income is only a proxy for 'poverty of experience' is also apparent in the increasing relative incidence of crime with socio-economic status (which takes into account factors relevant to 'poverty of experience' such as parental education), and with the gradation of academic success with school socio-economic ranking. A further example of the impact of family culture, the source of poverty of experience, is shown in the relative academic success of Asian children in New Zealand.<sup>148</sup> In our view, eliminating the effects of poverty means eliminating the effects of 'poverty of experience' on all children, and including those who still suffer those effects, notwithstanding that their parental income is not in the lowest quintile.

This new perspective on the scale of the impact of child poverty indicates the need to focus policy interventions not only on income for those families suffering the effects of poverty from cash shortages; but also on supporting positive family cultures right across the income spectrum. Parenting skills, and family culture, appear to be as powerful influence on lifetime outcomes for children as family income. The potential benefits of successfully eliminating 'the effects of poverty of experience' are much larger than have been recognised in the past from merely eliminating low income poverty.

Here we initially focus on income as an indicator of 'poverty of experience' as data is readily available. It should be kept in mind that the issue is much more complex than our focus on income suggests.

In the following sections we consider the costs of child poverty; firstly the lost opportunity through forgone productivity, and then the direct costs of crime and health. Then we look at the adverse impact on GDP. Finally we draw some conclusions and make some recommendations.

## Productivity costs

### **Productivity costs, UK**

The UK's *Rowntree Study* (Blanden, Hansen, & Machin, 2010) uses recent data from the British Cohort Study (BCS) to estimate the impact that growing up in poverty has on lifetime earnings. The longitudinal BCS follows all those born in a week on April 1970 in the UK. These children were tracked at ages 5, 10, 16, 26, 30 and 34. The data collected includes the subjects' family incomes at age 16, and the subjects' earnings at age 34. The data allowed controls to be added for observable parental characteristics such as education and lone parent status which do not change if income changes. This allows the authors to control for these variables and estimate the short term impact of eliminating child poverty. In the longer term though, as argued above, eliminating child poverty should mean the next generation is better educated and their children will experience an improved environment which will foster their development and break the vicious cycle.

Blanden, et al. (2010) find that if no other factors are controlled for, child poverty reduces earnings at age 34 by 28%. Controlling for family characteristics such as lone parent status and parental education results in a reduction of earnings at age 34 by 21%. They also compared the difference in life experience of children with family incomes between £100-£200 a week to those earning less than £100 a week, which should give some indication of the actual impact of reducing child poverty. They find, depending on what variables are controlled for, a reduction in earnings at age 34 of between 10% and 14%.

To gain insight into one of the causes of the lower earnings, Blanden, et al. (2010) also control for the education qualifications achieved by the child. As expected, controlling for education does reduce

<sup>148</sup> For example for low income areas 95% of Asian children achieving an NCEA 3 score of 40 go on to study for a Bachelors degree. For European, Maori and Pasifika children, only 80% will continue on to tertiary study.

the impact of child poverty but not by as much as one might think. For the full sample, controlling for education and family characteristics reduces the impact of income at age 16: earnings are 15% less compared to 28% with no controls. This gives weight to the hypothesis that child poverty leads to lower educational qualifications and lower earnings. However, the evidence also suggests that a child living in poverty who achieves the same educational qualifications as a child who grows up in more privileged family can still expect relatively lower earnings at age 34. They also find that poverty reduces the probability of being employed: individuals in poor households at age 16 are 4-7 percentage points less likely to be employed at age 34.

Using these results, Blanden, et al. (2010) estimate the impact on GDP if all childhood poverty was eliminated. They work on the assumption that the child poverty rate is 22.3% in the UK, which is similar to the New Zealand rate. Depending on what factors are controlled for, they find that elimination of child poverty in the UK would increase GDP by 1% to 2%. They also note that about one quarter to one third of this would be transferred to the government through a higher tax take.

Transferring these results to the New Zealand context, annual GDP is approximately \$178 billion, so eliminating child poverty would likely increase GDP by \$2-4 billion with the government tax revenue likely to increase by around \$0.5-\$1 billion.<sup>149</sup>

### **Productivity costs, USA**

Holzer, Schanzenbach, Duncan, & Ludwig (2007) review the literature on the economic costs of poverty in the US and use the relationships found there to estimate the costs of poverty in terms of forgone income and productivity, crime, and poor health. They begin by raising issues that are at the heart of the welfare debate, asking: are the costs of child poverty a direct result of low income or of a broader range of family and community forces that afflict low income families? They write:

*Susan Mayer's book (1997) argues that the costs of poverty have less to do with income and more with the quality of family life, schools and neighbourhoods that poor children experience. In turn these non-pecuniary factors might be reflected in a range of attitudes, behaviours, and values that poor children develop and carry into adulthood, which might have been caused by their parents' and/or peers' attitudes, behaviours, and values in addition to (or even instead of) their low childhood income. Of course the latter interpretation does not imply that poverty is any less costly to children who experience it. (Holzer, et al., 2007, p. 44)*

Clearly some of this is circular: families live in poor neighbourhoods because they are poor; but none the less it is an important point. Rather than try to grapple with unravelling all this, Holzer, et al. (2007) define the costs of child poverty very broadly to include income effects; all the personal characteristics imparted by parents, schools and neighbourhoods to children who grow up with or in them; and the entire range of environmental factors associated with poverty in the US.

Our view, elaborated below, is that raising family income is important but other policies are also important to help children who grow up in poverty to realise their potential, and to avoid the effects of the 'poverty of experience' at the heart of many of the consequences of material poverty. Other factors such as parental education or neighbourhood factors are also likely to be relevant. Thus as far as policy goes it is important to know how significant these other factors are.<sup>150</sup> For example, if

<sup>149</sup> This is in the long run: the GDP gains from reducing child poverty accrue slowly over 20-30 years as children grow up and enter the workforce.

<sup>150</sup> From this perspective it is disappointing that the approach of Holzer et. al. (2007) is not more nuanced. None the less their paper is an important contribution.



neighbourhood variables are important, one possible policy response would be to pepper pot state housing, as New Zealand's first Labour government did. One important point made by Holzer, et al. (2007) is that research by Duncan, Wei-Jun Yeung, Brooks-Gunn, and Smith suggests that "poverty in early life may be most damaging" (1998), and it may well be true that even short spells of poverty during these years can impose large and permanent costs on children. Unfortunately only a few studies address this important question.

Holzer, et al. (2007) cite two studies: Mayer (1997) and Corcoran & Adams (1997) which show, without controlling for parental education or other characteristics, that doubling the income of families below or at the poverty line raises subsequent male incomes by 30-40%. Based on estimates such as these Holzer et. al. (2007) estimate the adverse impact of reduced productivity resulting from child poverty at roughly 2.1% of GDP. They use a figure of 10% for children who grow up in poverty for half their childhood and a further 8% who experience poverty at least one fourth of the time.<sup>151</sup> They then consider possible unobserved heredity factors which may explain lack of earning potential. Based on Jencks and Tach's (2006)<sup>152</sup> review of studies of twins, they suggest the best estimate is that the hereditary portion of intergenerational transmission of inequality is about 40%. This implies that the entire range of environmental factors represents 60%. They then factor out the hereditary component and find that the experience of growing up in some or severe poverty reduces the nation's aggregate output by 1.3% (but see Footnote 18).

Studies which attempt to directly estimate the effect of higher income on children's achievement in poor families are also reviewed by Holzer, et al. (2007). For example, Morris, Duncan, & Rodrigues (2006) use data from random assignments of welfare mothers into groups that receive extra income and those that did not. They find earning supplementation has significant positive effects on child achievement, and their experimental evidence also suggests that earnings supplements boost achievement of younger children the most.<sup>153</sup>

One of the few studies that focuses on early childhood poverty is Duncan, Ziol-Guest, and Kalil (2010). That careful study, controlling for a large number of variables,<sup>154</sup> finds that a US\$3,000 increase in annual income for the family of a child growing up in poverty between birth and age 5 is associated with a 19% higher annual earnings between the ages of 27-37. They claim to be the first study "to link high-quality income data across the entire childhood period with adult outcomes measured as late as age 37". The large number of variables they control for adds weight to their conclusions:

*Our list of variables controlling for conditions at the time of birth is extensive and ought to reduce a great deal of potential bias. More important, and unusual for studies such as ours, is that our estimates of the impacts of early childhood income control for income in middle childhood and adolescence. As such, factors such as genetic influence are likely to affect later and early childhood income, and thus are controlled, in some degree by our inclusion of income in other childhood stages. (Duncan, et al., 2010, p. 322)*

Translating the Duncan, et al. (2010) results into impact on GDP: child poverty in the US for children under 5 reduces productivity, and hence GDP, by approximately 1% of GDP.

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151 For this group they estimate the impact on earnings as a half compared to those who are in poverty at least half the time.

152 These studies use mostly Swedish data and hence may overstate the importance of heredity factors for countries such as New Zealand which are considerably less equal.

153 Dahl and Lochner (2006) find similar results.

154 Including ethnicity, parental education, parental expectations and whether the observed home is "dirty".



## Productivity costs, New Zealand

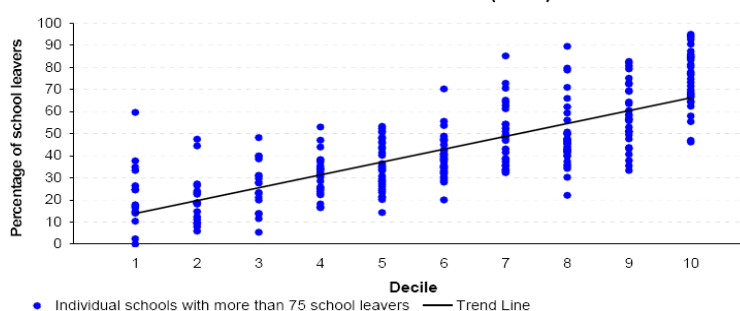
There have been no comparable studies for New Zealand. We estimate the productivity costs for New Zealand as follows. The main driver for increases in productivity due to elimination of child poverty is through better educational outcomes which are reflected in higher earnings (productivity). We estimate a new distribution of qualifications and hence income once child poverty is eliminated.

It may be objected that this approach assumes that increased qualifications will be reflected in job opportunities and earning capability; and that this increase in jobs and job opportunities also requires capital investment and economic growth. We consider that this investment represents part of the cost side of potential policy changes to reduce poverty. Such productive investment in jobs will be expected to create its own return on capital, and is essentially self-funding. The successful lifting of educational attainment, as represented by qualifications, is a good first approximation of long term benefit, and hence opportunity value, since investment in jobs may be assumed to be made on internal project economic considerations.<sup>155</sup>

Education affects both the probability of being in work (as opposed to unemployed) and the likely level of earnings. Qualifications are a proxy for future employment and income. An example of this effect of school decile on educational outcomes, in this case University Entrance (UE)

**Figure 18.1. Percentages of School Leavers with University Entrance, 2009**

Percentage of school leavers achieving a university entrance standard, by school decile and school (2009)



University Entrance (UE)

achievement rate, is shown in the Ministry of Education Annual Report (2011b). The difference in success in achieving UE might lift from 18% (Deciles 1+2) to around 29% (Deciles 3+4) compared to having no qualification, an 11% points increase. The national average success rate was 44% (2009).<sup>156</sup> The chart is reproduced here as Figure 18.1.

Figure 18.1 shows the trend of schools UE pass rates (at least NCEA3) with school population decile is strong. Schools from Deciles 1 and 2 average 18% pass rates.<sup>157</sup> Deciles 3, 4, and 5 average 30%. Average for all schools is 44%.<sup>158</sup>

The New Zealand Ministry of Education comment on these figures:

*There is a clear positive correlation between the socioeconomic mix of the school the student attended and the percentage of school leavers achieving a university entrance standard. Schools in the lowest deciles (1 and 2) draw their students from communities with the highest degree of socio-economic disadvantage. Students from schools in the highest deciles (9 and 10) are three*

<sup>155</sup> This also assumes that investment and job creation conditions can attract capital investment in New Zealand to create value-creating jobs.

<sup>156</sup> School Leavers with a university entrance standard on <http://www.educationcounts.govt.nz/indicators>.

<sup>157</sup> For schools, Decile 1 has the lowest income, and Decile 10 has the highest income. For health, Decile 1 has the highest income.

<sup>158</sup> [http://www.educationcounts.govt.nz/statistics/schooling/school\\_leavers2/university-entrance-standard-numbers-2009-UE-standard-by-year-level-and-decile-2009](http://www.educationcounts.govt.nz/statistics/schooling/school_leavers2/university-entrance-standard-numbers-2009-UE-standard-by-year-level-and-decile-2009).

*times more likely to leave school having achieved a university entrance standard, than students from schools in the lowest decile schools. There is a large variation in the proportion of school leavers achieving a university entrance standard amongst schools within each decile. (Ministry of Education, 2011b)*

Because 'School Deciles' are not population deciles, the lowest 20% of pupil population covers Deciles 1, 2, 3, and 10% of Decile 4. Their recent UE pass rate is 24%. There is no reason to believe that the innate ability of children in decile 1-3 schools is any different to the ability of children in higher decile schools. Therefore we take the view that eliminating poverty will lift the performance of these children to the average of the rest of the population rather than to the achievements of the next decile up. That is, eliminating poverty could be expected to lift their performance to equal the average of decile 4-10 schools: 48%. The 24% point gain in pass rate for this disadvantaged group will increase the number of people having at least UE as their highest qualification by 5 percentage points (and lower those with no qualification by the same amount).

Most students who pass University Entrance go on to achieve higher qualifications, or vocational or trade qualifications, which carry higher lifetime earning potentials. Applying the mix of future qualifications based on the current workforce qualification mix and reported earnings by qualification, we can estimate the productivity effect of eliminating child poverty. Statistics New Zealand report December 2010 earnings by highest qualification and the number in each category. We estimate a new distribution by assuming that the increased number of students with UE as their higher qualification is distributed according to the current labour force distribution. Multiplying by the numbers in the workforce brings the productivity gain to approximately \$3.1 billion a year. Thus we estimate that eliminating child poverty would, in the long term, lift earnings \$3.1b annually (1.8% of GDP).

Highest qualification	No qual	NCEA 1 or 2	UE	Diploma	Vocational or Trade Qual.	University Degree	Other postschool	Average wage
Current Mix in Workforce	23.2%	15.9%	5.9%	8.1%	27.4%	15.5%	3.9%	\$675.1
Mix if Child Poverty eliminated	16%	18.3%	6.5%	8.8%	29.5%	16.7%	4.2%	\$692.8
Average Weekly Wage	\$451	\$502	\$527	\$496	\$763	\$1124	\$716	
Relative weekly wages	\$100				\$169	\$249	\$159	

#### Summary of productivity costs of child poverty

We have summarised here the evidence from a number of papers evaluating the opportunity cost of lost GDP resulting from child poverty. A number of studies put this at between 1-2% of GDP in the US, UK and New Zealand. The lower estimates result from controlling for parental and/or hereditary characteristics. Eliminating child poverty will over time result in a healthier and more productive workforce, contributing to a higher national income and higher tax take for the government. For New Zealand these gains will eventually be from \$2-\$4 billion a year, with a concurrent annual increase

in government revenue of \$500 million to \$1 billion. The lower estimates are likely in the medium term as attributes such as parental education cannot change in this time frame. In the longer run the control variables such as parental characteristics or neighbourhood variables are likely to change as the first cohort gains from better education and income providing more resources and support in turn for their children's development.

### Crime costs

There have been a number of studies examining the costs of crime in the US. Anderson (1999) estimates the per capita cost of crime at \$4,818 (US\$2004) which for the US as a whole is around \$1.4 trillion or 11.9% of GDP (US\$11.8 trillion in 2004).<sup>159</sup> The per capita costs in the US are likely to be higher than New Zealand reflecting the fact that the imprisonment rate and murder rate in the US are the highest in the world, and that the US costs include the loss of earnings by murder victims, which are 76% of all victims costs (which are apparently not included in the New Zealand costs).

Roper & Thompson (2006) in a Treasury Working Paper estimated the costs of crime for 2003/4 in New Zealand at NZ\$9.1 billion: \$2.1 billion public sector costs, \$7 billion private sector costs (=6.2% of NZ\$148 billion GDP or NZ\$2,220 per capita). The New Zealand costs include direct costs such as operating prisons, opportunity costs such as production forgone for those in prison, and the direct and indirect costs borne by the victims. Our preliminary estimates put the cost of crime in New Zealand at \$9 to \$16 billion a year.

Heckman and Masterov (2007) focus on child participation in crime in later life, and the strong empirical relationship between early adverse family environments, citing evidence from Lochner and Moretti (2004) who find that poorly educated people are more likely to commit crime. There is strong evidence of a causal correlation between child poverty, low educational achievements and crime. The Perry Preschool programme, discussed below, randomly assigned children from disadvantaged families to an enriched preschool child development programme and found that participants averaged significantly fewer lifetime arrests than the comparison group. Heckman & Masterov (2007) consider similar studies and conclude that treatment group members are shown by most studies to have dramatic reductions in criminality and participation in the criminal justice system. In short: impoverished environments promote crime; and enriched environments reduce crime.

Levitt (1997) estimates that additional police officers in large US cities reduce crime costs to the value of \$200,000 a year at a direct public cost of \$80,000 a year. (Lochner and Moretti (2004) estimate that the same result can be achieved by producing more high school graduates at a cost of \$15,000 a year in direct costs. Thus from a policy perspective, as Heckman & Masterov (2007) write, per dollar spent, education is far more effective than expenditure on police.

### **Estimates of the crime costs of child poverty, US, UK and New Zealand**

There is much less consensus in the academic literature on the costs of crime resulting from child poverty, and empirical estimates vary widely. Holzer, et al. (2007) review two US studies. The first by Bjerk (2007) finds significant correlation. He estimates that youth growing up in families in the bottom quartile of the income distribution are 1.3 times as likely to be involved in crime compared to youth growing up in the second quartile. Furthermore the effect is non-linear, for example there is little difference in crime for children growing up in the third and fourth quintiles respectively. The second, earlier study by Elliot and Ageton (1980) uses data from the national youth survey, and finds that

<sup>159</sup> See: [http://research.stlouisfed.org/fred2/graph/?s\[1\]\[id\]=GDP](http://research.stlouisfed.org/fred2/graph/?s[1][id]=GDP).

'lower class' youth report committing nearly 4 times as many violent crimes as 'middle class' youth. Confronted with these estimates, Holzer, et al. (2007) conclude that the annual incidence of crime attributable to poverty is 20%. They provide evidence that this is likely to understate the true costs because it is well known that national surveys underestimate the true rates of self-reported crimes, especially among minorities.<sup>160</sup>

Once this figure is arrived at, it is straightforward to use estimates of the total costs of crime in the US to find total crime costs of child poverty. Holzer, et al. (2007) find that a conservative estimate of the cost of crime due to child poverty is 2% of GDP. After correcting for hereditary effects (40%)<sup>161</sup> they estimate the total cost is 1.3% of US GDP.

Bramley and Watkins (2008) report on the direct public service costs of child poverty in the UK. They estimate the fraction of child crime (up to age 18) and youth crime (18-24) attributable to child poverty. Crime rates are established for each geographical area and regressed against child poverty in that area, or on child poverty and a range of demographic and geographical indicators. The first model attributes 44% of child and youth crime to child poverty while the second model with more controls (for factors related to child poverty such as parental education) attributes a smaller share of 26% to child poverty. In our view it is not unreasonable to extrapolate these percentages to all crime since criminal patterns of behaviour are usually established by the age of 24 and then reinforced in later life.

Brand and Price (2000) estimate the total cost of crime in England and Wales in 2000 at £60 billion or around 7.2% of GDP. Using the Bramley and Watkins (2008) figures, this would mean that the child poverty costs of crime are between 1.9% and 3.2% of GDP, depending on how many factors are controlled for.

In our view these estimates are on a much less firm footing than the productivity cost estimates described above. There is not a great deal of research in this area and the figures vary somewhat. Our best guess based on these studies is that the crime costs of child poverty are between 1.3% and 3.2% of GDP for both the US and the UK.

In New Zealand Fergusson, Swain-Campbell, and Horwood (2004, p. 957) conclude:

*On the basis of this evidence there seems to be little doubt that, as a general rule, individuals from socioeconomically disadvantaged and deprived environments show a greater propensity to engage in crime.*

As part of the Christchurch Health and Development Study, they studied 1,265 children from birth to age 21 years. For the sample in Table 18.2 (D Fergusson, et al., 2004, Table 4)<sup>162</sup> the relative rates of self-reported offending and convictions by six socioeconomic strata of their families at ages 0-6 were:

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160 For example, estimates are that for minorities there is under reporting by a factor of 2 to 4 (Hindelang, Hirschi, & Weis, 1981).

161 In our view this overestimates the impact of hereditary effects. Rhee & Waldman (2002) in a meta study of 51 twin and adoption studies quote heritability influences from 0 to 0.71. Walters (1992) meta study found a 9% influence. Mason and Frick (1994) suggest 50% genetic influence. Miles and Carey (1997) found up to 50%. James (2002) quotes twin studies showing heritability of antisocial traits, but that their expression in anti-social behaviour is highly modulated by upbringing- environmental conditions. In other words expression of hereditary effects is not significant for behavioural outcomes compared to early childhood environment.

162 Unadjusted ratios reported, since these capture all effects of disadvantage.

163 We note that lower socioeconomic groups have a much higher probability of conviction relative to their self-reported offending.

**Table 18.2. Relative effect of socioeconomic status on childhood offending ages 15-21**

	1	2	3	4	5	6
Self-reported offending	1	1.26	1.59	2.01	2.53	3.21
Officially recorded convictions <sup>163</sup>	1	1.92	3.67	7.03	13.48	25.82

This suggests that reducing the relative offending rates of Group 6, the lowest socioeconomic strata, to the average of the remainder of the population would reduce crime by between 13%<sup>164</sup> (self-reported) and 39% (based on convictions). Since most criminal behaviour is early established (D Fergusson, et al., 2004) this suggests that the effects of socioeconomic status might reduce the costs of both youth and adult crime in New Zealand,<sup>165</sup> by \$1.7 billion annually, or 19%.<sup>166</sup> Eliminating poverty for 20% of children would increase this figure (based on a sixth of the population) to about 23%.

Studies by the Rowntree Trust indicate that 51% of crime costs are attributable to those aged under 25. Analysis of New Zealand Police 'apprehension rates by age' show 48% of crime committed by those under 20 years (population 1.27 million) compares to 52% by 2.8 million older adults. A significant majority of criminal behaviour is established by age 20, thus a significant proportion of the adult costs of crime are a consequence of youth crime. Based on Spier (2001) we conservatively estimate that about 75% of adult crime flows on from youth criminal behaviour, since 78% of over 20 year olds have prior convictions. Eliminating poverty would not only reduce youth crime by 23%, but also reduce adult crime by around 18%. Overall this corresponds to a long term 20% reduction in cost of crime.

The Treasury estimate for the costs of crime in New Zealand is \$2.1 billion for public sector costs, and \$7.0 billion for mainly victim costs. We believe these estimates are understated, primarily because of the assumptions on the ratio of actual crime to reported crime. Treasury assumes a ratio of 4:1, based on UK and Australian data.

The Ministry of Justice's Crime and Safety Survey (NZCASS) (2010) indicates that only about 12% of crime reported to the survey is recorded in police statistics as reported crime. This suggests that the Treasury estimate of costs of crime is significantly understating the actual cost. Since the NZCASS data is twice the assumed 4:1 ratio between actual and reported crime; the true figure is more likely to be nearer 8:1. This ratio would roughly double victim costs; and take the estimated New Zealand total cost of crime from \$9.1 billion to nearer \$16.1 billion. The New Zealand Treasury ratio of actual to reported crime is also inconsistent with the self-reported crime and conviction ratios in the table above from Ferguson (2004) combined with official conviction rates which yields a figure of 11:1.<sup>167</sup> The Treasury's 4:1 is likely to be a serious underestimate.

We conclude that the costs of crime resulting from low socioeconomic status (for the lowest 20% of the youth population) is in the region of 23% of youth crime, and 19% of all crime, which has a cost range of \$9-\$16 billion; thus potential savings of \$1.7 to \$2.6 billion or 1.0% to 1.5% of GDP.

164 Reported crime from 3.21 to 1.68 (=1.53) for 1/6<sup>th</sup> of youth population, or 0.255 in a whole cohort average of 1.933, or 13% overall. Convictions would fall from 25.82 to 5.42 (=20.4) for 1/6<sup>th</sup> of youth population, or 3.4 in a whole cohort average of 8.77, or 39% overall.

165 The Treasury's Costs of Crime estimates were based on multiplying up reported crime to estimate actual crime, and this figure is considered to be somewhere between self-reported offending, and convictions.

166 This figure is derived by assuming the justice system costs are proportional to convictions (so would reduce by 39% if child poverty eliminated) whilst the private costs (victims) are proportional to self-reported crime (which would reduce by 13%).

167 Authors own calculation. Details available on request.

	<b>Treasury estimate</b>	<b>Authors' estimate</b>
Ratio of Actual to reported Crime	4:1	8:1
Costs of Crime	Government \$2.1b Public \$7.0b Total \$9.1b	Government \$2.1b Public \$14.0b Total \$16.1b
Apprehensions by age		Under 20 43% Over 20 57%
Savings from Eliminating Poverty		Government 13% Public 39%
Savings	Government \$0.82 Public \$0.91 Total \$1.73	Government \$0.82 Public \$1.82 Total \$2.64
Proportion of Costs		
Of Crime	19%	16%
Of GDP	1.0%	1.5%

#### Health costs

Holzer, et al. (2007) also examine the health costs of child poverty. Their key reference is a paper by Cutler & Richardson (1998) who estimate 'quality of life health measures' (QALY). They use an annual value for a year of life of \$100,000 which is then adjusted according to QALY. For example QALY for blindness is 0.89 so the value for a year of life for someone who is blind is \$89,000. Or alternatively the 'cost' of blindness for a year is \$11,000. Similarly the 'cost' of an early death would be \$100,000 a year. When Cutler and Richardson (1998) analyse the cost of morbidity and mortality against child poverty at birth they find that the extra cost is around \$124,000 compared to a new born child in a household above the poverty line. Holzer, et al. (2007) using a similar approach estimate the economic value of lost quality of life caused by child poverty to be 1.1% of GDP.<sup>168</sup> They also find that poverty raises direct health costs by around 0.2% of GDP but note that, because expenditures on Social Security, Disability Insurance, and other categories are omitted due to lack of estimates of these poverty effects, this estimate is likely to understate the true effects of poverty. Totalling the direct costs and the loss of quality and quantity of life costs gives a child poverty health cost of 1.3% of GDP.

Bramley and Watkins (2008) consider only the direct health costs in the UK. They estimate these to be £2 billion or about 0.3% of GDP. This approach considers only direct health costs to age 18, and ignores all longer term health effects, including direct health system costs; loss of work capacity and earnings potential; and welfare cost consequences.

A related study by LaVeist, Gaskin, and Richard (2009) looks at the economic burden of health inequalities in the US. They find the direct and indirect costs of health disparities to be approximately

<sup>168</sup> This does not include lost earnings which has been estimated above.



1.8% of GDP. DeVol and Bedroussian (2007) put long term conditions in the US as costing US\$1.3 trillion, of which 85% (\$1.1 trillion) was indirect, lost productivity costs.

The Ministry of Health (2001a) examined the top causes of disability adjusted life years (DALYs) lost by specific conditions in New Zealand. The report found that nine of the top 10 causes were long-term conditions. As detailed elsewhere in this publication, many of these conditions are a direct result of child poverty.

In the absence of any overall economic cost studies, we make an estimate: we assume some fraction of adult over-25 health is a consequence of the childhood poverty experience. There is strong evidence for this in the literature. Researchers for *End Child Poverty*, a UK charity, quote Power, Li, and Manor (2000, p. 9):

*Adults at 33 years of age in the 1958 British national cohort were 50 per cent more likely to report limiting illness if they had experienced disadvantage at seven and 11 years of age.*

Power, et al. (2000) quote Kuh & Wadsworth (2003) who report that good health is associated with better socioeconomic conditions in childhood and higher educational qualifications. Magnuson & Votruba-Drzal (2009) report that, by age 50, in comparison to individuals whose incomes are 200% of the poverty line or greater, individuals who have experienced poverty in childhood are 46% more likely to have asthma, 83% more likely to have been diagnosed with diabetes, and 40% more likely to have been diagnosed with heart disease. The comparison of those under the poverty line with those at or above twice that level, corresponds to the first quintile, compared to the other 4 quintiles, in New Zealand wages terms.<sup>169</sup> This is equivalent to comparing Deprivation Index 9 and 10 with a population of Deprivation Index 1 to 8. Haas (2007, p. 113) confirms the linkages:

*This study assesses retrospective childhood health reports and examines childhood health as a predictor of adult health. The results suggest that such reports are of reasonable reliability as to warrant their judicious use in population research. They also demonstrate a large positive relationship between childhood and adult health. Compared with excellent, very good, or good childhood health, poor childhood health is associated with more than three times greater odds of having poor adult self-rated health and twice the risk of a work-limiting disability or a chronic health condition. These associations are independent of childhood and current socioeconomic position and health-related risk behaviours.*

Holt (2010) identified the risk of ill health by educational qualification. This shows that the unqualified have a 13% probability of an annual ill-health cost, compared to 9.2% for the population at large (and 8.4% for the qualified groups). This is a 45% or 58% higher probability (i.e. relative risk). A high proportion of children growing up in poverty are in this unqualified group.<sup>170</sup>

Based on these studies we conservatively estimate that experience of childhood poverty increases the chances of ill health in later life by 50% compared to the average.

Analysis of New Zealand relative hospital admissions<sup>171</sup> suggests that the Decile 9 and 10 Deprivation Index<sup>172</sup> patients under age 24 have about 80% higher incidence of admission than the average of

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169 NZIS June '10 qtr tables /Table 8. Personal Incomes; Quintile 1 = \$180 pw; Quintile 2 = \$379 pw/

170 From the analysis of qualification based on UE pass rates (24% v 48%), about double the proportion of children in poverty will be in this unqualified group later in life, compared to the rest of the population.

171 Analysis of Indicator handbook data.

172 Deciles 9 and 10 are the most deprived deciles in the Health Index, the opposite of the Education Index.

their age group (and 137% higher than patients from Deprivation Index groups 1-8). The excess admissions represent about 16% (and up to 27%) of under-24 admissions. Based on the proportion of admissions from under 24 age group 29%<sup>173</sup> then the excess admissions of the Decile 9 and 10 group represent about 4.6% to 8% of all hospital admissions. Moreover, these admissions reflect a propensity for remaining a higher proportion of admissions and costs in later years also as discussed above.

The 50% higher chance of ill health for adults who experienced child poverty translates into a 10% excess ill health figure since 20% of adults will be in this group. Adding these up in proportion based on the relative populations of under and over age 24 gives the estimate that the effects of growing up in this deprived quintile is be between 11.8% and 14.8% of health services costs. Vote Health is around \$11.8 billion, and direct health costs are estimated at \$15.4 billion<sup>174</sup> so the effects of child poverty on hospital direct costs might be around \$1.8 billion to \$2.3 billion (1% to 1.3% of GDP).

Education opportunity costs

### **Evidence from enriched preschool programs**

One of the recurring themes that has emerged in our survey of the literature is how much of the costs of poverty are due to lack of income and how much should be attributed to other factors such as parental education, neighbourhood effects, and heredity factors. Our reading of the evidence is that about half of the costs can be directly attributed to lack of income. Income poverty is also proxy for other factors in a child's environment which cause disadvantage. An interesting question then is: 'What policy interventions, if any, can address the non-monetary disadvantages that children experience growing up in poverty?'

A number of studies in the US have tried to examine the impact of programmes that attempt to enrich the early years of childhood directly. The most famous of these is the Perry preschool experiment (Schweinhart, 2006). An intensive preschool programme was administered to 5 different waves of randomly selected disadvantaged children in the US between 1962 and 1967. A randomly selected control group did not undertake the special programme. Between the ages of 3 and 5 years, the children who participated in the program had daily 2.5 hour classroom sessions on weekday mornings and a weekly 90 minute home visit by a teacher to involve the mother in the educational process. The children's progress was then tracked at regular intervals.

Heckman and Masterov (2007) estimate the cost in 2004 would be US\$8,785 per participant year. They report a significant boost in children's IQ up to the age of about 8 which then fades. They summarise the results of the programme thus:

*Test scores for the treatment group were consistently and significantly higher through to age 14. Participants had higher grades and were more likely to be employed and to earn more and they were less dependent on welfare. There was substantially less crime among participants, both in terms of incidence and severity, a recurrent finding of early intervention programs.* (Heckman and Masterov, 2007, p. 480)

Heckman and Masterov (2007) report similar results for two other early intervention studies, and consider the impact of introducing such a scheme to all children from disadvantaged backgrounds.

173 Publicly-funded-hospital-discharges-07-08.

174 Cost of Health Expenditure from Health Expenditure Trends in New Zealand 1996-2006, MoH 2008, from Ministry of Health's website: <http://www.moh.govt.nz> Table 5.3.

Eventually all benefits to society, including savings for government, reduced crime costs, and increased productivity, total \$422 billion or 3% of GDP. They estimate<sup>175</sup> the total rate of return of introducing the Perry preschool program to be 16%.

Of course care needs to be taken in extrapolating these figures to the New Zealand context especially as there has been increased support for pre-school education over the last decade or so. Nevertheless the experiment demonstrates that there may be policy options to address factors associated with child poverty and deprivation apart from lack of physical resources which hinder the opportunities for children with disadvantaged backgrounds to reach their potential.

#### Summary Table

Bringing together the three categories of impact assessed above we see an overall impact of child poverty on New Zealand's economy of 3.8% to 4.6% of GDP.

<b>Table 18.4. Summary of Impact of eliminating child poverty on GDP</b>		
	<b>Overseas</b>	<b>New Zealand</b>
Loss of Productivity	1% to 2% of GDP UK	1.8% of GDP NZ
	2.1% of GDP US less 40% hereditary, 1.3% of GDP. 1% of GDP (under 5 study)	
Saving from reduced Crime	1.9% to 3.2% of GDP UK	1.0% to 1.5% of GDP NZ
	1.3%-2% of GDP US	
Health Costs reduced	0.4% of GDP direct costs to age 18 only UK	1% to 1.3% of GDP NZ
	1.3% to 1.8% of GDP US	
<b>Total</b>		<b>3.8% to 4.6% of GDP</b>

Finally we note that this estimate may be conservative when using data based on socio- economic indexes based on geographical area.

As discussed above what is likely to be more important for outcomes for children is their 'poverty of experience' rather than conventional child poverty which is based on income alone. We could in principle try to construct a 'poverty of experience' variable based on a range of variables. The list could include income, neighbourhood, education of parents, whether parent/s have a job, whether they suffer from alcohol or drug abuse or have a history of depression, overcrowding, family culture, as well as many other variables.

If we could identify children suffering from poverty of experience in this way, and intervene to move them towards the average childhood experience, then we believe the gains would be substantially bigger than just focusing on income alone.

Both the school decile index and the health deprivation index take other factors into account besides

<sup>175</sup> See supporting statistics in Chapter 12 to Gluckman et al (2011 ) who quote evidence that early intervention programmes will benefit: cost ratios of 2.3 to 1 to 16 to 1.

parental income. For example the health deprivation index considers the proportion of the population in each area using the following variables (in decreasing weight order):

- People aged 18-64 receiving a means tested benefit;
- People living in households with income below an income threshold;
- People not living in own home;
- Single parent family;
- Unemployment;
- Qualifications: People aged 18-64 without any qualifications;
- Living space: People living in households below a bedroom occupancy threshold;
- Communication: People with no access to a telephone;
- Transport: People with no access to a car.

Clearly the deprivation index captures some of what we mean by 'poverty of experience', but there are many important variables that are not included, for example: whether the parents suffer from depression or have a drug or alcohol problem.<sup>176</sup> Furthermore the geographical basis of these socio economic indicators means that they will contain a mixture of deprived and non-deprived families in each area.

These factors we believe significantly bias our estimates of the cost of child poverty (interpreted in the way just described) downwards, perhaps significantly so. Further research is needed to quantify this.

## Conclusion

The results of the literature review and our own calculations are collected in Table 18.4 above. The international evidence for the US and UK is that the costs of child poverty in those countries is between 3% and 4% of GDP. Our calculations find for New Zealand the annual costs are between 3.8% to 4.6% of GDP.

Capturing the potential savings of eliminating poverty requires policy actions that address both the 'Income Barrier' for families in income poverty, and that provide acceptable focussed support for parents of children who are suffering from 'poverty of experience'. In our view addressing income adequacy is an important first step but not enough on its own to address the second issue we have identified.

Reducing child poverty requires a sustained intergenerational effort, which can have a significant effect on the long term national economy.

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<sup>176</sup> The NZDEP Survey 2006 uses 9 deprivation-related variables: means-tested benefit; household income; access to a telephone; unemployed; single-parent families; no qualifications; dwellings not owner-occupied; access to a car; occupancy/overcrowding (C Salmond, P Crampton, & J Atkinson, 2007, pp. 40-41)

Bringing up children in poverty has bad consequences for a society, and for all its citizens. We believe we have demonstrated it has serious economic consequences for New Zealand. What is now required is prompt creation of new policy and action plans to reduce child poverty. Creation and justification for deploying new initiatives can now be assisted by knowledge of the scale of potential benefits.

The next steps will depend on efforts to estimate the costs, and impacts, of each new initiative, to enable policy choice based on benefit cost comparisons.

## Recommendations

Six broad issues must be addressed:

- Creation of productive well-paid jobs that enable all those who wish to work to find economically valuable work;
- If parent/s of children are unable to work, increase their income above the poverty line. At the very least family incomes should be lifted enough so that the children are no longer living in poverty;
- Offer cultural education, motivation, and opportunities to families whose children suffer from “poverty of experience” to enable them to recognise, and act on the potential to lift their children to a lifetime out of poverty. It is based on supporting “peer leadership” by the natural leaders of local communities, in creating and sustaining acceptable ways of reducing poverty;
- Developing willingness in the Government and the public service to experiment on a variety of local initiatives, based on the broad body of existing research, and to accept that whilst some will fail, the best will be capable of replication. Local “ownership” of programs to reduce poverty may well be as important to their success as compelling prior research evidence;
- Investigate the potential of enriched pre-school programmes for children with deprived backgrounds;
- Recognising that the time scale of achieving measurable results is long. Persistence and patience is required:
  - a. Impacts on child health costs will accrue benefits progressively over 20 years, with on-going lifetime savings thereafter;
  - b. Crime cost savings will commence after about 15 years, and will increase over about 20 years;
  - c. Increased productivity effects will emerge from about year 20, and will increase progressively over the next 20 years.

# Summary of Chapter Recommendations

## **Chapter 2. Child poverty and inequality**

- Adopt an official poverty line at 60% of the contemporary median, disposable, after housing costs, household income;
- Also monitor poverty on a fixed line basis;
- Supplement these measures by regular surveys of hardship;
- Set net income for those on benefits so that no-one is under the poverty line;
- Pledge to end child poverty in New Zealand by 2020;
- Acknowledge the vital social and economic contribution made by good parenting;
- Create a senior Cabinet position with responsibility for children, such as a Minister for Children, to support the move toward a child-centred approach to policy and legislation; and fund child-impact assessments of existing national and local policies;
- Monitor all major indicators of child poverty and report these on a regular basis with specific target reductions to be met on the way to ending child poverty by 2020.

## **Chapter 3. Work, Families and Poverty**

- Review and adjust benefit levels to ensure that families with children are not below the poverty line;
- Acknowledge the work of caring for dependents by ensuring that this work is treated as being of equal status to paid work;
- Reject WWG recommendations which fail to meet the above objectives and which treat beneficiaries as second class citizens.

## **Chapter 4. The Whānau Ora Approach**

- A true fundamental review of the social security system that does not threaten the amount of income support that is given to families in need, but seeks to identify ways to make the existing system less individualistic and more responsive to whānau needs;
- This review needs to be carried out in true conjunction with Māori;
- That Whānau Ora providers give assistance and training in social security provisions to whānau to ensure whānau are fully apprised of their entitlements.



## **Chapter 5. New Zealand Pacific Children and Their Families**

Seek a commitment from leaders in Pacific Communities, Government agencies, and Parliamentarians to:

- Address inequalities with appropriate healthcare;
- Design integrated strategies and interventions for Pacific peoples.

## **Chapter 6. Working for Families**

- Remove all hours worked requirements from child-based family assistance.
- Reverse the decline in Working for Families as set out in the 2011 budget for the years 2012-2018.
- Simplify to make Working for Families more understandable.
- Abolish the In Work Tax Credit and add \$60 per week to the first-child Family Tax Credit.
- Fully adjust the Family Tax Credit for inflation every year. Leave the rate of abatement at 20%.
- Administer all payments of the Family Tax Credit through the IRD and pay the full amount to one caregiver. No shared care apportionment.
- Abolish the Minimum Family Tax Credit and allow more flexibility for those on part benefits.
- Raise the first \$100 market income threshold for abatement of the Domestic Purposes Benefit to \$180 per week and the second \$200 threshold to \$250. Extend the 30 cents in the dollar abatement of net benefit, effective between \$180 and \$250, to all beneficiaries with young children.
- Eventually **universalise** \$20 of the Family Tax Credit for each child under 5 as part of a return a commitment to the principle of inclusion; but only if accompanied by an increase in the progressivity of the tax scale and not at the expense of meeting poverty reduction among the poorest.

## **Chapter 7. Paid Parental Leave in New Zealand: catching up with Australia?**

- Improve the level and coverage of financial support for all new parent/s and their newborn children so that none miss out.
- Investigate a Baby Bonus equivalent to ensure all newborn children are funded for the best possible start.
- Change the PPL eligibility requirements so that the work test does not require the same employer and so promote flexibility in meeting work requirements.
- Investigate how to encourage firms to remain in contact with their employees, and enable new parents to maintain their links to the labour market.
- Allow parents/primary caregivers to share the PPL.
- Pay the PPL at a standardised rate, rather than an earnings-based percentage.

## **Chapter 8. Reforming Child Support**

- Child Support reform must have the child's well-being at the centre, not the financial needs of the Crown, nor of just the non-custodial parent.

- Child Support reform must act to ameliorate child poverty for children in families supported by a benefit or low income.
- Part or all of Child Support should be paid directly to the parent on a benefit and used in the income assessment of the beneficiary.
- Child Support reform must aim to simplify agreements between parents, and arrangements with the IRD and Work & Income rather than complicate them and cause stress and anxiety.
- Child Support reform must be conducted in a holistic environment that takes into account issues of the caregiver's opportunity costs, the way Working for Families tax credits operate, and the government initiatives to re-define family income for social assistance purposes.
- More resources for post-separation parenting courses and financial counselling are needed to encourage voluntary arrangements outside of the Child Support scheme to gain the benefits from flexibility and co-operation.

### **Chapter 9. Tax Reform and the macro economy: Heaven help the children**

- Review the economic management of the past four years that has relied on tax cuts to stimulate the economy, borrowing to fund disaster relief and spending cuts to restrain the budget deficit. Learn the lessons from Australia.
- Return GST to 10% as in Australia and complement with progressive taxation. If there is no appetite for that, then far more generous compensation of lower income groups is required via higher benefits and more generous tax credits.
- Aggregate all income for tax purposes under a comprehensive income tax approach.
- Tax all investments at the appropriate marginal tax rate of the investor and eliminate special treatments.
- Reform the tax treatment of rental housing and home-ownership investment to remove regressive advantages with either a Capital Gains Tax or a Risk Free Rate Method approach.
- Abandon income splitting as a policy under the Income Sharing Bill.

### **Chapter 10. Poverty and violence, and children**

- Locate the best interests of children at the centre of programmes and services for children and families faced with issues of violence and child abuse;
- Include an understanding of the significance of poverty in the context of child abuse, and adopt a comprehensive and holistic approach to child abuse and violence towards children;
- Provide comprehensive and sustained services to ensure long-term improvement for children in severely disadvantaged and deprived families;
- Wherever possible, considering the best interests of the child, treat parents as active partners in the development of effective services;
- The small number of children who are unable to be provided for adequately and appropriately by their parents are especially at risk and require particular attention and priority for their protection and their effective development.

## **Chapter 11. Families, Children, and the Law**

- New Zealand needs to withdraw its reservations to UNCROC and implement all of its obligations under the convention;
- The Family Court and Department of Child, Youth and Family should be resourced so that cases relating to children can be properly and promptly resolved;
- Children born in New Zealand automatically become New Zealand citizens;
- Non-New Zealand citizen children are entitled to health and education services while they are in New Zealand;
- No children or young people should be detained in police cells and steps should be taken to ensure there are always beds available in youth justice facilities, and
- The age of criminal responsibility should be raised back up to 14 years;
- Counselling programmes should be made available for child domestic violence victims and witnesses;
- Implement the safe@home programme or an equivalent service nationwide;
- Amend the Social Security Act to require the best interest of children to be taken into account in all decision-making relating to benefits or alleged benefit fraud;
- Establish an independent benefits review system, either through an Ombudspersons Office or ACC review model.

## **Chapter 12. Child Health and Poverty**

- The first priority is to create free access to primary care services for children under 6 years: all days of the week and for afterhours services;
- Increase the governments' strategic and financial commitment to children's health and child mental health, as a much larger percentage of the national health budget;
- Government to respond to concerns and recommendations from 2010 PHAC report;
- Create a national health target that focuses on reducing poverty-related admissions to hospital for children;
- Urgently develop a national strategy to focus on under-nutrition in children. Strategies could include making breakfast available to all in Decile 1 and 2 schools;
- Monitor mental health and substance use, and institute a national programme for screening for depression (as the TaskForce for Prevention in USA).

## **Chapter 13. Housing poverty and children**

- That research be undertaken by NGOs universities and Government agencies to more closely establish the relationship between inadequate housing and the poor health and educational outcomes being achieved for many New Zealand children.
- The Government develop and fund a national housing plan to address the emerging housing shortages identified by the Department of Building.

## **Chapter 14. The impact of social hazards on children**

Child Poverty Action Group urges that the protection of children be at the forefront of the regulatory framework around social hazards, including:

- Banning tobacco retail displays;
- Requiring plain packaging and graphic warnings to replace brand imagery;
- Ensuring locations where young people are present, including private vehicles, are smokefree;
- Empowering parents and caregivers to be smokefree in order to protect their children from becoming smokers;
- Exposing the tactics and activities of the tobacco industry.
- CPAG supports the recommendations of the Alcohol Action group:
  - Introduce a minimum price per standard drink to end ultra-cheap alcohol sales;
  - Reduce the adult drink-driving limit from 0.08 to 0.05;
  - Begin a five year period of dismantling alcohol advertising and sponsorship;
  - Restore alcohol-free status to supermarkets;
  - Return the purchase age for both on- and off-license to 20 years; and
- In recognition of the considerable harm that excessive alcohol consumption does to New Zealand's young people: restrict its marketing and availability, and introduce harsher penalties for drink-driving;
- Recognise the damage 'problem gambling' does to the children in a family and in a community, and support a Public Health approach toward amelioration and solutions;
- Support the 'sinking lid' policy toward the reduction of gambling machines, and develop alternative options for community funding of sports and charities;
- Follow the lead of most of the rest of the developed economies and cap interest rates;
- Support the teaching of financial literacy as part of the curriculum in primary schools.

## **Chapter 15. Early childhood care and education**

- Government commit to reducing reliance on private sector provision of early childhood education and care as a long-term objective, aligning the early childhood sector with primary education in terms of accepting government responsibility for both quality and access expectations in order to ensure equitable provision;
- Government enable adequate funding provision to ensure that all early childhood education centres are fully staffed by qualified teachers, and further require ratios of teachers to children and unit sizes to be maintained in accord with quality guidelines;
- Establish a model of ECE provision that is more intentional in terms of who it serves, where it is located and what else it provides to support parents and families;

- Base the new model of ECE provision on a neighbourhood by neighbourhood and a town by town assessment of future early childhood education needs;
- Start thinking about travel distances in terms of pushing strollers rather than in terms of driving SUVs.

#### **Chapter 16. A turn for the worse? Some recent developments in the school sector**

- That the New Zealand Government acknowledge that international research suggests that the National Standards policy may have perverse and damaging effects;
- That the Government investigate such effects thoroughly and respond accordingly rather than pushing ahead with the policy regardless of its impact;
- That the Government look for ways to avoid further damage being created by 'league tables' of National Standards achievement, acknowledging that it is not feasible to take full account of school context in such tables;
- That the Government takes sustained action towards addressing the supply of quality teachers to low decile schools in ways that do not involve mirroring charity and business-based models which overseas research have shown to be largely ineffective;
- That teacher education providers take greater account, in teacher education and postgraduate courses, of the social justice issues surrounding education and children in poverty;
- That teacher education providers actively develop and promote courses for teachers wishing to teach in lower decile schools. Such courses would focus on empowering and culturally appropriate teaching and learning in lower socio-economic contexts.

#### **Chapter 17. Youth and employment**

- All political parties commit to a substantial reduction of youth unemployment rates as part of the 2011 election, develop a range of policies to achieve this and evaluate and monitor those policies;
- Create and fund additional training opportunities, including apprenticeships and mentor services;
- Develop a fuller range of training programmes and job opportunities for Māori and Pasifika young people to reduce their unemployment rates;
- New incentives for employers to employ young workers;
- Open up tertiary education opportunities for further study and skill development until the economy improves;
- The education system needs to recognise the diversity of skills beyond the academic and develop these;
- Support and develop opportunities for school students to make connections with industries that might want to employ them;
- Require a commitment from New Zealand employers to monitor their employees and prioritise remedying gender inequity.

## **Chapter 18. The costs of child poverty**

- Creation of productive well paid jobs that enable all those who wish to work to find economically valuable work;
- If parent/s of children are unable to work, increase their income above the poverty line. At the very least family incomes should be lifted enough so that the children are no longer living in poverty;
- Offer cultural education and motivation and opportunities to families whose children suffer from “poverty of experience” to enable them to recognise, and act on the potential to lift their children to a lifetime out of poverty. It is based on supporting “peer leadership” by the natural leaders of local communities, in creating and sustaining acceptable ways of reducing poverty;
- Developing a willingness in Government and the public service to experiment on a variety of local initiatives, based on the broad body of existing research, and to accept that whilst some will fail, the best will be capable of replication. Local “ownership” of programs to reduce poverty may well be as important to their success as compelling prior research evidence;
- Investigate the potential of enriched pre-school programmes for children with deprived backgrounds;
- Recognising that the time scale of achieving measurable results is long. Persistence and patience is required:
  - a. Impacts on child health costs will accrue benefits progressively over 20 years, with on-going lifetime savings thereafter;
  - b. Crime cost savings will commence after about 15 years, and will increase over about 20 years;
  - c. Increased productivity effects will emerge from about year 20, and will increase progressively over the next 20 years.

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