

# Working Paper no.10:

## Reforms to the Tax, Benefit and Active Employment System to Reduce Child Poverty

Expert Advisory Group on  
Solutions to Child Poverty

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### Purpose

1. This paper was prepared for the EAG to inform and support discussions on possible changes to the tax and benefit systems and support for parental employment and child care that would reduce child poverty. If we want all families to have adequate family income to meet basic needs of their children, we need to consider the components of poor children's family income and what options are available to increase these. This means looking at how to better align the current tax and benefit support system settings so we get better value from public investment and target support to families that need it most. It also means looking at the circumstances where it is possible to increase parental earned income, and how this might be best achieved and supported. In all cases, it means taking a child-centred approach to consider the different needs of children across their life-course, and consequentially, the different supports for their parents. The best interests of the child must be at the heart of any new policy package.
2. While this paper addresses key elements of income support for reducing child poverty, it should be read in the context of several other EAG Working Papers, particularly:
  - EAG Working Paper no. 8: The case for an investment approach to reducing child poverty
  - EAG Working Paper no. 11: How the child support system could work to reduce child poverty
  - EAG Working Paper no. 3: What causes child poverty? What are the consequences? An Economic Perspective
  - EAG Working Paper no. 2: Lifecourse effects on childhood poverty.
  - EAG Working Paper no. 16: Education solutions to mitigate child poverty.
3. This paper has informed the direction and recommendations of the EAG's *Solutions to*

*Child Poverty in New Zealand: Issues and Options Paper for Consultation.* These are preliminary findings, and a final report will be published in December 2012. The findings in this paper do not necessarily represent the individual views of all EAG members.

4. The EAG wish to acknowledge the Secretariat for their work on this report.

## **Background**

5. As reported in Perry (2012), 25 percent of New Zealand children – 270,000 children – are living in poverty. On the same measure, this is up from 11 percent in the mid-1980s.
6. There is a growing debate in New Zealand about how to best tackle the problem of child poverty. We are not alone in this debate, as many other OECD nations are struggling to address this same problem. Some countries, in particular the Nordic countries, have been successful in keeping child poverty rates very low. At the other end of the spectrum, the United States, Chile, Turkey and Mexico have the highest child poverty rates. The 2012 UNICEF report provides up-to-date international comparisons on child poverty.
7. Looking at the different degrees of success that OECD countries have had in tackling child poverty can provide New Zealand with valuable lessons in what approaches seem to work best. Our lack of wealth should not prevent us from tackling child poverty. The fact that the United States has one of the highest rates of child poverty is evidence that greater national wealth does not translate into less poverty or material deprivation.
8. The relationship between spending on child benefits and poverty rates internationally shows that, generally, the higher percentage of a country's GDP spent on families, the lower their child poverty rate. But there are exceptions, including New Zealand. Along with the United Kingdom and Australia, we tend to spend about the same proportion of GDP as the Nordic countries, but have more than double the child poverty rates on some measures (OECD, 2012).
9. One explanation can be found in the types of households that are more likely to be poor – sole-parent households – and the high prevalence of sole-parent households in New Zealand. The key link to child poverty is the ability of the family to generate employment income, with sole-parent families not only having less adults to potentially contribute, but the challenges for the sole-parent in balancing child-care needs against employment. The economic reality of high unemployment and changing skill needs for employees are also part of this context.
10. But this does not mean we cannot learn from others and improve our effectiveness in

addressing child poverty. The evidence indicates that those countries that enable poor families – particularly sole-parent households – to enter the labour market have the most success in tackling child poverty. The key policies that help achieve this are: support for employment (especially child care), and getting the targeting of tax and benefit support right.

11. Getting targeting right does not assume benefits only should go to the poorest of families, as many of the countries with lowest child poverty rates have a commitment to universal provision. It means getting the right mix of universal and targeted benefits to poor and non-poor families that will improve the outcomes for children.

## Introduction

12. We want all families to have enough income to meet the basic needs of their children. This means looking at the components of poor children's family income and considering what options are available to increase these. Components of family income can include:
  - Parents' employment earnings
  - Working for Families tax credits: Family Tax Credit (FTC), In-Work Tax Credit (IWTC), Minimum Family Tax Credit (MFTC), and Parental Tax Credit (PTC)
  - Benefit support: mainly Domestic Purposes Benefit (DPB) and Unemployment Benefit (UB)<sup>1</sup>.
13. Current policy settings in New Zealand with respect to the tax system, income support benefit system, support for parental employment and subsidies for child care (and their incentive effects and impacts) do not deliver the low level of child poverty that is socially and economically desirable. They are particularly weak on recognising the changing developmental and life-course needs of children, and the consequences of these needs for parents. A major reason for these problems is that the current policy instruments are not well-designed, do not function well together as a system, and may even in some cases work against each other.
14. The existing evidence, considered in the supporting *EAG Working Paper no. 3: What causes child poverty? What are the consequences? An Economic Perspective*, suggests that low family income is an important factor in poor child outcomes: family income has a causal effect on child education, behavioural and health outcomes, and that the effect is strongest during early childhood. This indicates that any increased investment should particularly focus on younger children. The evidence also shows that family income has a stronger causal effect on outcomes for children in poorer families,

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1. <sup>1</sup> Benefits also include housing subsidies paid to families, namely the Accommodation Supplement (AS). The AS is dealt with separately in *EAG Working Paper no.18: Housing policy to address child poverty*.

suggesting a more equitable redistribution of income can achieve better overall outcomes for children. Since family income can be directly influenced by the tax-benefit system, together with support for parental employment and child care, getting that system performing well for children must be an important focus of solutions to child poverty.

15. This paper draws upon the evidence within the current New Zealand context to provide recommended reforms to the tax system, benefit system, support for parental employment and subsidies for child care to reduce child poverty. It places children at the centre of the system and seeks to reduce child poverty in the context of a mutually reinforcing tax-benefit and employment support system. In addition, we view the child support system as an integral part of family incomes for many families living in poverty. Hence supporting changes in this area are also considered, even though these are dealt with in greater depth in *EAG Working Paper no. 11: How the child support system could work to reduce child poverty*.
16. The changes proposed in this paper are designed to contribute to meeting the goals of reducing child poverty and material deprivation as set out in other EAG papers. More specifically, the EAG's long-term goal (i.e. for 2022) is to reduce child poverty (as assessed by the recommended moving-line income measure, before housing costs) by a minimum of 30 percent, and by around 40 percent (using the moving-line income measure, after housing costs). Some tentative cost estimates are included in the final section of this paper.
17. Theory and evidence confirms that money matters. Money allows families to make choices for their children according to their individual circumstances. Providing cash support to low-income families is not the only solution to child poverty, but it must be an essential part of any package of measures for addressing child poverty and mitigating its effects. Providing income support is a way to help the large portion of poor families who can use the cash to better meet the needs of their children. For other families who, for a variety of reasons, are not in a situation where they can make the best decisions about how to best meet the needs of their children, direct provision of services or non-cash support will be needed.
18. Recommendations and rationales for changes to the tax-benefit system, support for parental employment and subsidies for child care are now considered. This includes:
  - general principles and considerations to inform the design of robust and cost-effective policies
  - short-term actions that can be made to the current system to get better value from public expenditure while also reducing child poverty
  - more fundamental changes to provide a sustainable child-centred system to further reduce child poverty over the longer term.

## General Principles for Policy Design

19. A well-functioning tax-benefit and employment support system, with a focus on reducing child poverty should have the following attributes:
- lift children out of poverty when poverty has the most damaging consequences
  - protect children during recessions as well as when the labour market is strong
  - maintain strong parental labour market attachment
  - support poverty exit through parental work where this is child-age appropriate
  - minimise disincentives to work and create positive incentives for paid work
  - minimise disincentives for people to partner
  - be simple, for both families with children and for administration
  - maintain an appropriate balance between a 'benefits strategy' and an 'employment strategy' (See *EAG Working paper no. 3* for initial discussion of these two concepts by the OECD)
  - be fiscally responsible.
20. No one system will match all criteria perfectly, so inevitably there will be trade-offs between these objectives. Some of these trade-offs can be informed by evidence and experience while others will reflect value judgments.

### **Recommendation 1:**

*We recommend that the design of policies to alleviate child poverty and mitigate its effects should be based on the best available evidence on what works to reduce child poverty and improve child development and well-being, and take into account the following:*

- *Article 26 of the UN Convention on the Rights of the Child, recognising the right of children to social security and the corresponding obligation of the government to implement measures necessary to achieve full realisation of that right*
- *Article 3.1 of the UN Convention on the Rights of the Child, recognising the best interests of the child to be given primary consideration*
- *the responsibilities of parents, the community and wider society for the well-being of children*
- *the design of an income support system for children should be simple, effective, efficient and fair*
- *a recognition that working age adults with children who experience lengthy periods of disengagement from the labour market often find it difficult to re-*

*engage*

- *there is a general trend that parents actively seek part-time paid employment when their youngest child exits infancy and more extensive work after the youngest child starts school. There is no good reason why parents on benefits should be any different*
- *a recognition that employment expectations of sole parents also need to take into account the specific needs of the child, the particular circumstances of the family (including health status, disability and social supports), and the availability, affordability and quality of childcare, early childhood education (ECE) and after-school care*
- *the availability, affordability and quality of childcare, ECE and after-school care will influence parents' ability to participate in the workforce*
- *while recognising that adults in receipt of state assistance have a responsibility to fulfill reasonable societal expectations regarding labour market activity and financial support for their children, preference is for using positive incentives and supports rather than sanctions to encourage parents to move into paid employment*
- *the desirability of ensuring high take-up of all forms of child-related income support by those eligible*
- *the desirability of ensuring that policies do not discriminate based on parental relationship, so that perverse incentives that undermine family formation are reduced*
- *an appropriate form of indexing should be applied to all child-related income support including thresholds for abatement to maintain real levels of support*
- *all policies on the supply-side designed to promote employment will be relatively less effective in protecting children from poverty in a recession when jobs are more difficult to find. While supply-side policies remain important in a recession, attention also needs to be given to protecting children from poverty whose parents are unable to find work.*

### **Recommendation 2:**

*We recommend that increasing the incomes of children in poor families needs a properly integrated and systemic focus on:*

- *income generated by direct **income support** in the early years of a child's life*
- *income generated via child age-appropriate **parental employment** through measures that are designed:*
  - *to support parental re-entry into the labour market starting in early childhood,*
  - *to facilitate the availability of sustainable, secure and sufficiently flexible employment for parents entering the labour market*

- *to assist parents in employment to increase their hours of work by the time the child enters the compulsory schooling system.*
  - *a base level of income support, targeted on the basis of family income, is provided across the child life course*
  - *a mix of targeted and universal support for high-quality child care, ECE and after-school care to ensure that child development and child age-appropriate parental employment goals can be met.*
21. We would expect that the relative emphasis between income support and employment support measures (including child care and ECE) would change over the child's life course. Income support would be most important in early childhood. Exit from child poverty via paid parental work and work-support would increase in importance as the child gets older.
22. This overall approach, informed by the developmental evidence, provides a framework for the design of a consistent system of taxes and benefits, support for parental employment and child care. The framework would ensure a coherent, mutually supporting policy balance between direct income support and parental employment routes out of poverty as the child ages.

### ***Recommendation 3:***

*We recommend that section 1B of the Social Security Act 1964 be amended to add a subsection 1B(e) requiring that any person exercising a duty or function under that Act must give primary consideration to the welfare and best interests of any child or children who may be directly or indirectly affected by the exercise of that duty or function.*

23. All policies that impact on children, including policies on the tax-benefit interface, support for parental employment and child care should consider children's welfare and best interests, consistent with the government's obligations under Article 3.1 of the UN Convention on the Rights of the Child. This consideration could be mandated through an amendment to section 1B of the Social Security Act 1964, to require that any person exercising a duty or function under that Act must give primary consideration to the welfare and best interests of any child or children who may be directly or indirectly affected by the exercise of that duty or function.

### **Additional considerations for child-centered policy design**

24. There are several key issues that need to be considered in the policy development for a well-functioning tax-benefit and employment support system in the short and long term. These include: focusing on younger children, the appropriate number of hours for parent employment (based on child age), the challenges for sole-parent families, and employment support. These issues, outlined below, provide a foundation for recommendations that follow.

### ***Focusing on younger children***

25. Younger children are more likely to be living in poverty. Perry (2012) notes that from 1982 to 2011, poverty rates for younger children (0 to 11 years) were consistently higher than the rates for older children (12 to 17 years).
26. The current income support system pays more for older children than for younger children. This structure is rationalised by the notion that the monetary cost of older children is higher (Claus *et al.* 2009). However, true costs are not simply monetary costs, but all opportunity costs.
27. Paying more income support for older children does not recognise the opportunity cost of younger children is much higher in terms of foregone parental work and leisure time. United States evidence suggests that as a child ages from 0-2 years to 9-12 years, passive parental care time falls by 5 hours per week and active parental care time falls by a significant 22 hours per week (Folbre *et al.* 2005). New Zealand patterns are unlikely to be qualitatively different. Even valuing this opportunity cost at the minimum wage rapidly leads to the conclusion that any additional monetary expenditure costs of teens are dwarfed by reductions in the passive and active care time inputs of parents. Note that only at age 14 can children legally be left at home alone, and child care is no longer a necessary cost.
28. Having benefit payments which increase with the age of the child fails to allow for the fact that poverty during the early stages of childhood is theoretically and empirically more damaging to the child's long-run prospects. Providing a higher rate for younger children also reflects the significant scientific literature on the importance of giving children the best possible start in the first few years of their life.
29. Additionally, we know that financial support has a more significant positive impact for younger children, so investing earlier is more efficient use of public expenditure.
30. For these reasons, it is important to alter the way current support to children is rated, so that higher amounts are paid to younger children, and the amount declines as the child ages.

### ***Child age and the appropriate level of parental employment***

31. There is considerable debate internationally regarding when it is appropriate for parents to be able to support their children through paid work, depending on the age of their youngest child. While parental paid employment is centrally important for reducing child poverty (see *EAG Working Paper no. 3*), there are concerns that moving parents, especially in sole-parent families, into the paid labour market when children are young may have unintended negative consequences for children.
32. We understand the importance on the young child's development of establishing

strong infant attachment and having the opportunity for the optimal duration of breast-feeding, and believe that maternal employment should not be sought at the detriment of these other important needs of the child during the first year of life.

33. Following infancy, childcare via ECE may have positive effects on cognitive development for the average child, and some negative effects on behaviour if care quality is poor and hours are long. Positive effects of ECE are most pronounced for disadvantaged children (Huerta *et al.* 2011) (see *EAG Working Paper no. 16: Education initiatives to mitigate child poverty*, for more discussion of ECE options).
34. A recent meta-analysis of 69 studies of the impact of early maternal employment on young children concluded that there were no overall negative effects of maternal employment on child achievement and behaviour. Indeed, positive effects of maternal employment were found for two and three year olds. Most importantly from the point of view of reducing child poverty, positive effects were found for young children whose parents were on welfare, in sole-parent families or of low socio-economic status. Again, however, average positive effect sizes were small (Lucas-Thompson *et al.* 2010).
35. For the parent themselves, there is a consensus that too much time out of the labour market leads to an erosion of skills and behaviours which support positive future paid employment relationships. From a narrow labour market perspective, the OECD, in their *Babies and Bosses* review, suggests that the desirable period of labour market disengagement for women may be as short as four-to-six months following birth (OECD 2007). From a broader and longer-term child perspective, it is strongly in the child's interests that the parent (provided they are able to and appropriate child care is available) does not become detached from the labour market, as this could entrench the child to a childhood of poverty.
36. Expectation of parental employment must be carefully coordinated with availability and support for subsidised provision of child-age appropriate ECE and OSCAR.

### ***Challenges for sole-parent families***

37. As reported in Perry (2012), 25 percent of New Zealand children – 270,000 children – are living in poverty. Children living in sole-parent households experience significantly higher poverty rates than those in two-parent households and other family households (53 percent, 16 percent and 9 percent respectively). Overall, about half of children in poverty are in sole-parent households. On top of this, New Zealand has higher rates of sole parenthood than the OECD average. Employment rates of sole parents are also low compared to most other OECD countries (OECD, 2011).
38. Evidence consistently shows that a parent obtaining full-time paid employment is often the main event leading to an exit from child poverty. A considerable number of

sole parents on a benefit are already working or seeking work. Data from the 2010 Household Labour Force Survey suggest that one in four Domestic Purposes Benefit (DPB) recipients with a youngest child under four are already either working or actively seeking work (the figure when the youngest child is over age five is about 60 percent). Sole parents face considerable challenges in supporting their children through paid employment.

39. Determining when it is practical and desirable for sole parents to support their children through paid work is controversial. As discussed above, paid parental work by a sole parent is generally not a desirable option for infant children (i.e. for children under one years of age). Having a parent at home with the infant in the first year is signaled as desirable elsewhere in the system, by the provision of one year of job-protected unpaid parental leave. Beyond infancy, the evidence suggests disadvantaged children can significantly benefit from high quality centre-based ECE.
40. Quality out-of-home care provides parents with an opportunity to reconnect with the labour market part-time (e.g. 2-3 days per week) and then later full-time (30 hours or more per week). If parents find paid work, the evidence shows that higher family incomes during early childhood generated by working further improves the child's outcomes. But for parental paid work to be sustainable for the family requires broader support, such as access to childcare and after-school care and the flexibility to manage work needs with young sick children.
41. New Zealand has a weaker work expectation and less support for entering the work force for sole parents than most OECD countries (including the Nordic welfare states, which combine stronger expectations with stronger social support). Parents can be encouraged into work through a range of incentives, supports or mandated expectations. The current mandated work expectation on sole parents in New Zealand is part-time work from age five of the youngest child, with a full-time expectation when the child turns 14 years old.
42. The longer a parent is out of the workforce, the harder it is for them to get paid employment. There are many reasons, including employers' perception that they have lost skills as a result of being out of paid employment. The uncertainty of child care arrangements, lack of confidence, and real lack of employment opportunities are also barriers.
43. When placing this evidence into the policy context, account must be taken of current economic circumstances and the ease or difficulty of finding employment.
44. All OECD societies place a significant value on parents supporting themselves and their children through paid work. For a system of taxes and benefits, support for parental employment and child care focused on lifting children out of poverty to enjoy long-term public and political support. It should therefore be clearly focused on supporting

paid work for parents, where this is possible.

45. Additionally, there needs to be the recognition that at times (for a range of reasons such as recession, limited work opportunities or family issues such as disability or illness), parents may be unable to gain or maintain paid work. In such situations there needs to be a basic level of income for all children regardless of parental work status to alleviate child poverty.
46. In terms of improving child outcomes and finding solutions to child poverty, the evidence canvassed above points to: 1) the need for a more strongly supported labour market reconnection than is currently built into the system; and 2) the need for a basic level of income for all children when parents are unable to maintain sufficient paid employment to meet the needs of their children.

### **The employment problem analysed**

47. If paid employment is a significant lever in addressing the child poverty problem, and it is preferable for parents to reengage in the labour market early following infancy, as the evidence considered in the section above suggests, what policies are available to promote and support employment of parents with children, especially sole parents?
48. One of the major causes of child poverty is the relative lack of jobs in the economy for parents who have only limited educational qualifications, skills or work experience. Compounding this is the fact that most low-skill jobs are relatively poorly paid. There are various reasons for the limited job opportunities facing some workers, not least the global economic difficulties of recent years, imbalances in the labour market (nationally and regionally), and the many challenges that some people face in acquiring new skills (e.g. due to the costs and availability of relevant training programmes).
49. A crucial part of the solution to child poverty lies in building a vibrant, high-skill, high-wage economy. At the same time, the evidence suggests that more effective policies to get people into jobs can work under a wide variety of labour market conditions.
50. The Government's policies to ensure that all 18 year olds are successfully prepared for further learning and work are welcome moves to increase the level of skills within the workforce. But we also need to reduce labour market imbalances and enhance the employment prospects for parents with more limited qualifications and skills. Possible policy options to do so on the demand-side include:
  - **Minimum wage changes:** In our view, there is little room to further increase real incomes via increasing minimum wages. This is because minimum wages are currently very high in relative terms and they are generally an ineffective instrument for addressing child poverty under current conditions (see *EAG Working Paper no. 3: What causes child poverty? What are the*

*consequences? An Economic Perspective* for further detail). Equally, domestic and overseas evidence suggests that reductions in the minimum wage are equally unlikely to cause a strong positive employment response, and any response is not well targeted to children.

- **Reducing employment regulation:** New Zealand has one of the least regulated labour markets in the OECD. On the principle of diminishing returns to deregulation and little evidence of a massive employment response to previous periods of deregulation, further moves in this direction, which can at best be only small anyway, are highly unlikely to be a game changer. Again, such policies also have a limited child focus.
- **Job subsidy programmes:** There have been suggestions of time limited in-work subsidies paid for beneficiaries to move off benefit. Experimental evidence suggests that these are useful in moving parents off a benefit and into work for the duration of the subsidy, but they have little enduring effect (Card and Hyslop, 2005; Brewer et al. 2012). We regard job subsidy programmes as potentially effective for a small group of hard-to-place in employment job seekers. Stronger targeting of such programmes towards parents with children may be desirable, especially during the more critical part of early childhood when parents are making a transition back into the labour market and child poverty is most damaging.

51. Policy options to reduce the labour supply barriers for parents of poor children include:

- Ensure child-age appropriate work pays parents enough to induce them to take up paid employment, by reducing the disincentives in the policy settings (e.g. when loss of a range of state-provided benefits at the onset of employment means that paid work does not make them better off).
- Ensure there is sufficient provision of suitable high quality ECE, child care and OSCAR to allow parents to work child-age appropriate working hours (both in terms of total weekly hours, but also hours of the day). We regard such policies as central for both child development directly, and indirectly via the higher income generated by parental employment.
- Ensure that parents of young children are given clear expectations about work (e.g. are appropriately work-tested if on a benefit) and strong support for early parental labour market re-attachment. These are characteristics of the Nordic systems which generate high employment rates of sole parents and low rates of child poverty.
- Ensure that the workplace is as child-friendly as possible for parents of poor children, so parents can combine effective parenting with the income and independence paid work provides.

- A stronger focus on effectively training and up-skilling parents and others competing in the low skilled labour market.
  - Better coordinate matching between workers with children and employers in the labour market by providing stronger incentives in the welfare system for the welfare agency to place parents with children into sustainable, child-age appropriate employment. We do not think that currently announced welfare reforms provide sufficient reward to placing parents into sustainable jobs and getting children out of poverty.
52. Employment issues and options are more fully discussed in *EAG Working Paper no. 12: Employment, skills and training options to reduce child poverty*.

### **Short-term actions to address child poverty**

53. There are a number of short-term actions which could be undertaken within the existing tax-benefit system at relatively low fiscal cost to improve poverty outcomes for poor children. These include proposals to better align systems and target support to reduce child poverty with the aim to:
- shift more support to younger children
  - encourage parental employment (at child age-appropriate level)
  - target limited resources to those most in need (e.g. larger families, beneficiary families)
  - reduce the impact of parental relationship status (and reduce perverse incentives that undermine family formation).
54. The main proposals below involve adjusting the rates in the Family Tax Credit and passing on child support payments to children in sole-parent beneficiary households. Combined, these two changes could put up to an additional \$1,200 to \$2,000 per annum per child more money into the households that need it the most to better provide for their children. Some crude estimates of programme costs are provided in the final section of this paper.

#### ***Recommendation 4:***

*We recommend increasing the Family Tax Credit by:*

- *Raising the maximum rates for all children aged below 16 years to equality with the rate for the first child aged 16 years and over and eliminating different rates based on number of children in family.*
  - *Incrementally raising rates further for children aged 0-6 years ('tilt towards younger children').*
55. The Family Tax Credit (FTC) is available to both beneficiaries and non-beneficiaries with children. The current weekly rates for 2012-13, along with the proposed short-

term changes are shown in the following table:

**Table 1: Summary of Family Tax Credit available and proposed**

<b>Current rate categories</b>	<b>Maximum weekly rates for 2012-13</b>	<b>Proposed maximum weekly rate</b>	<b>Weekly increase from proposed change</b>
First or only child 0-15 years	\$92.73	\$101.98	\$9.25
First or only child 16 years or older	\$101.98	\$101.98	\$0
Second or subsequent child 0-12 years	\$64.44	\$101.98	\$37.54
Second or subsequent child 13-15 years	\$73.50	\$101.98	\$28.48
Second or subsequent child 16 years or older	\$91.25	\$101.98	\$10.73

56. While full modeling is needed to assess the impact of this proposal, very crudely, at the maximum rate, it would on average result in a \$17.20 per week increase for each child. This is an average \$894 per child per year increase in FTC payments for those eligible for the maximum rate.
57. We know from Perry (2012) that younger children are more likely to be living in poverty, as poverty rates for younger children (0 to 11 years) were consistently higher than the rates for older children (12 to 17 years) from 1982 to 2011. Further, children larger families (e.g. with three or more children) generally have poverty rates considerably higher than those with only one or two children (e.g. 28 percent and 18 percent in 2011). In 2011, children in these larger households made up just under half of all poor children (48 percent).
58. Implementing the FTC rate changes proposed here will provide a modest reduction in child poverty where it matters most for children and where it is currently higher – younger children and children in larger families.
59. The recommendation to tilt higher rates further towards younger children follows from the evidence that for developmental reasons, and because parents are more limited in their labour market participation when children are younger, income support payments should be higher during the early years.
60. This recommendation requires proper modeling, which we would welcome. Part of the increase in rates could, if necessary, be paid for by a more rapid abatement of the FTC against family income.

### ***Recommendation 5:***

*We recommend passing on child support paid to the custodial parent.*

61. Child support is the financial obligation of parents who do not live with their children to help support the children. It is intended to contribute to the financial well-being of children so that they do not suffer undue hardship from family breakdown.
62. Using the child support system is voluntary, with the exception of those families in receipt of income support, who are obligated to use the system (and have child support passed on to MSD to offset costs of the custodial parent's benefit). Passing on the child support payment to children in sole-parent families on income support would have a positive impact on some 133,500 children, 89,000 of them currently living in poverty. Given that \$159 million was withheld from these children in 2011, as an estimate, the pass on could result in sole-parent beneficiary families receiving an average of \$23 per child per week, or \$1,200 per year.
63. A full discussion of the New Zealand Child Support System and rationale for this recommendation is included in *EAG Working Paper no. 11: How the child support system could work to reduce child poverty*.
64. There are many variations on how the pass-on of child support could be implemented, and further detailed modeling would be required to develop specific parameters of the pass on. If there are fiscal constraints, we would chose to pass on money only to those with younger children.
65. A further design consideration is to simplify the system with a complete disregard of child support income for the calculation of all taxes and benefits. The rationale for this, in addition to reducing system complexity, is that it represents an effective double taxation, since child support money is already taxed once at source (the non-custodial parent's income).
66. Pass-on creates much stronger incentives for non-custodial parent to pay and supply labour (as all money goes to child, not the consolidated fund, it ceases to be a tax). We believe that such a policy change would both encourage paternity establishment and encourage non-custodial parents to pay child support (See Cancian *et al.* 2007 for United States evidence on this).
67. Additionally, high quality experimental evidence from the United States using a random assignment experiment in Wisconsin that led to differences in family income due to relatively small increases in child support passed on is used by Cancian *et al.* (2010) to measure the effect of income on the risk of maltreatment reported to the child welfare system. They find consistent evidence of a causal effect from higher pass-on of child support to reductions in reports of child maltreatment reports.

### **Recommendation 6:**

*We recommend that the government should advance the child support payment to eligible households to avoid instability and delays of payment.*

68. For many children living in poverty, in households not receiving welfare benefits, child support contributions are vital to providing for their basic needs. Instability and delays receiving payments can put these children into severe hardship.
69. Again, to maintain the child-focus of the system, we propose that the government advance unpaid but assessed child support payments to the custodial parent and rigorously pursue the debt.
70. A full discussion of the New Zealand Child Support System and rationale for this recommendation is included in *EAG Working Paper no. 11: How the child support system could work to reduce child poverty.*

### **Recommendation 7:**

*We recommend that the government remove the hours worked test in the In-Work Tax- Credit (IWTC) and lower the minimum level of earned income required for IWTC payment for parents with a youngest child aged one to five years old.*

71. The IWTC currently has both an hours worked test and a family income test. The hours worked test requires a sole parent to work 20 hours per week for eligibility. This is an unnecessary complication for families with children in a world where hours can be volatile and be very difficult for the tax authority to accurately monitor (as the validation of pay records would be quite costly and onerous). Abolishing the hours test is hence an appropriate simplification.
72. The income test should remain. However, a lower income cut-in on the income test for parents with pre-school children could encourage more low-income parents with young children to actively engage part-time in the labour market.

### **Performance incentives, active employment policy and welfare reform**

73. Effective provision of income maintenance in the benefit system and effective employment policies that place adults with children into sustainable, well-paying work are widely accepted to be an essential part of a successful policy package to reduce child poverty and mitigate its effects.
74. However, children in families at the lower end of the labour market are extremely vulnerable to cyclical fluctuations in the unemployment rate. It is thus essential to ensure that the benefit system can provide adequate income support for significant numbers of children in bad times as well as in good.
75. The government is currently engaged in a programme of welfare reform and the final

shape of the new institutional structure is as yet unclear. We hope that the new structure pays adequate attention to the needs of children in its approach. For example, we would like to see overall outcomes of the new approach include reducing child poverty and improving children's outcomes.

76. Standing back from the current welfare reforms, it is clear that the benefit system has three over-arching performance goals:
- Paying benefits to people, including those with children, who are entitled to them
  - Not paying benefits to people who are not entitled to them
  - Offsetting the moral hazard of the benefit system by actively aiding beneficiaries into sustainable, well-paying work.
77. Holding a welfare agency to account for its performance, therefore, means explicitly measuring, for cash benefits directly and indirectly paid to children:
- Whether those on a benefit are in fact eligible for a payment, including whether they are meeting their active job search obligations in the case of job search tested benefits
  - Whether those on a benefit are being paid the correct amount to which they are entitled
  - Whether those not on benefit are actually eligible
  - The effectiveness of the overall policy regime, in the sense of a broad social cost-benefit calculus, including explicit consideration of outcomes for children, of active employment interventions, and so forth.
78. International evidence, for example, indicates that non-take-up of benefits in various OECD countries ranges between 50 percent and 80 percent (Hernanz *et al.* 2004). There is little or no New Zealand evidence collected on take-up, especially take-up of benefits by poor families with children, bar the initial evaluation of Working for Families which showed relative high take-up rates of overall reform payments. Take-up of both the Accommodation Supplement and the Child Disability Allowance, which are both important benefits for supporting children, has never been examined. We think that this measurement lacuna needs to change. Take-up rates need to be estimated and compared through time in assessing performance.
79. The current welfare system does not measure its performance across these three dimensions. If performance along these dimensions can be measured, performance incentives on Work and Income to achieve the better results we seek can be introduced.

***Recommendation 8:***

*We recommend that there be an annual calculation and publication of information on*

*the take-up of all major benefits and in-work payments by eligible families with children, including the take-up of key second-tier benefits like the Accommodation Supplement and the Child Disability Allowance. There should also be an analysis of the benefit take-up rates by those eligible broken down by child poverty status and ethnicity.*

80. Low take-up of child-related benefits, including tax credits, by families of poor children who are eligible is an indication that the tax-benefit system is not performing well. Annual information should be created about how well the system is performing its task. As noted, currently no regular information is collected on take-up of child-related benefits. An annual calculation of numbers of children involved and dollar amounts would be of value, similar to that provided by the UK Department of Work and Pensions. Providing a breakdown by family income allows a consideration of whether take-up by those eligible is worse amongst poorer families with children. There is particular concern about inequitable take-up of the Child Disability Allowance and the Accommodation Supplement due to barriers of information and ability to negotiate a complex system.
81. Once information on take-up is provided, it should be used to create performance incentives on Work and Income and Inland Revenue to perform their job of getting income to those families with children who society has decided are in most need.
82. We believe that to get the performance signals right, investment models should value benefit exit into paid employment over non-employment related exit, and benefit exit to employment by parents over exit by non-parents into employment, thus placing performance incentives on Work and Income to move more children out of poverty through paid employment.

***Recommendation 9:***

*We recommend adding a member to the Work and Income Board who has expertise in child well-being and development issues in relation to family labour supply, as opposed to simply insurance industry and work rehabilitation expertise.*

83. A further issue from a child poverty perspective is the make-up of the new Board supervising the Work and Income performance. Despite the fact that one of the main benefits targeted for reform is the DPB, and therefore improving outcomes for poor and vulnerable children, there is no Board expertise in the area of child well-being and development. Possible positive and negative impacts on children of welfare reform were identified by the Welfare Working Group as important, and as a consequence it would seem entirely sensible to have an expert voice in the child area represented on the Board.
84. We believe that having additional over-sight of Work and Income by someone with

these skills at a Board level is necessary to ensure the appropriate concentration on poor children's needs in this reform. The point is further reinforced by the fact that exit from benefit into sustainable employment is likely to be a major avenue to get children out of poverty.

## Long-term actions to address child poverty

85. Our long-term proposals for changes to the tax-benefit-employment system are designed to reinforce the directions of the short-term changes. The various changes are intended as a mutually reinforcing, evidence-driven policy package.
86. The proposals below outline a child-centred approach to income and employment support that recognizes the different needs of children across their life-course, and therefore the different supports for their parents. The core of this is a new 'Child Payment' paid irrespective of parental income sources, at least during the first part of a child's life. Changes to the Domestic Purposes Benefit and a review of all child-related benefit rates and relativities, including the In-Work Tax Credit, are also proposed. Finally, some crude cost estimates are provided for both the short and long-term proposals.

## Child Payment for young children

87. A starting point for longer term child-focused reform is re-naming the benefits which support families with children as Child Payments. This renaming signals and emphasises their central purpose – providing for the needs of children – for both parents and wider society. The Child Payment would have two components: a universal component for young children and a targeted component for older children. The Child Payment would be partly funded by replacing the Family Tax Credit, the Minimum Family Income Tax Credit, and the Parental Tax credit and infant care subsidies (for children under age one year) during the early years..

### **Recommendation 10:**

*We recommend the creation of a new income support payment, called the **Child Payment**, paid irrespective of parental income sources and focused on addressing child poverty. The Child Payment would:*

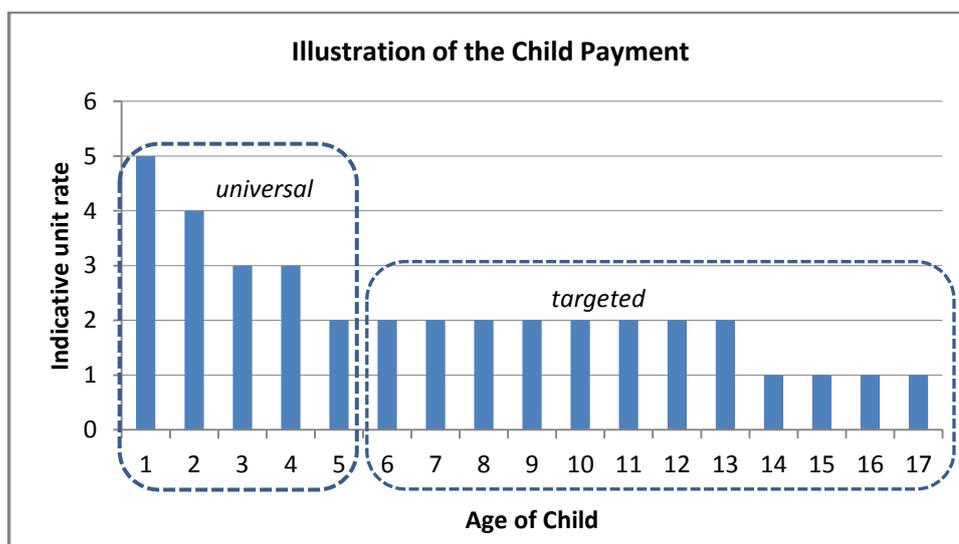
- *Include a universal payment for the early years*
- *Include a targeted component based on need for older children*
- *Have the highest amount of the payment for the first year and decline as the child ages*
- *Be indexed to ensure support keeps pace with real income.*

88. The Child Payment would have a universal component for younger children and there would be a shift to an income targeted payment when children became older. This

shift from universal to targeted could be made at either:

- end at age one (first year of life)
- age three (entry into free ECE), or
- age six (age of compulsory entry into schooling).

89. The EAG believes that age six is an appropriate point for the universal payment to end. This is the age that the child must enter into compulsory schooling, and can also be seen as effectively 30 hours where the parent does not have child care responsibilities, and where subsidised OSCAR childcare services will become available.
90. The Child Payment would be highest during infancy and decline through early childhood, reflecting lower time costs as the child ages and as other supportive services, such as ECE, and compulsory education are provided to parents. The age at which the universal payment both declines over early childhood and eventually finishes should be consistent with policies that support effective work or training for parents.



91. Providing a higher rate for younger children provides more income support when their parents are less likely to be in paid employment. It also reflects the significant scientific literature on the importance of giving children the best possible start in the first few years of their life, evidence that financial support has a more significant positive impact for younger children (so investing earlier is more efficient use of public expenditure) and the significant opportunity cost of young children.
92. From the time the universal benefit ends, the Child Payment would switch into a benefit targeted on the basis of family income. If such a benefit is introduced at age six, this maximum benefit could be set initially around the real value of the current FTC for the first child aged 16 or older. The income-targeted component could reduce further in value at age 14, the age at which children can legally look after themselves.

93. Switching to a targeted payment signals the move from a relatively benefit-focused strategy to a more strongly employment focused strategy as the child ages. Further, this signals the shift in expectations for parents who are able to seek paid employment as a main source of family income.
94. The reduction in the value of the maximum targeted payment would again reflect the evidence that income early in the child's life-cycle is more powerful in influencing longer-term child outcomes than income later in childhood, and the desire to support appropriate parental labour market attachment as the child ages.
95. This child-age related tapering would need to be coordinated with changes to in-work tax incentives to make work pay, work-testing of beneficiary parents (at appropriate levels to their child's age) and the subsidized provision of ECE and OSCAR.
96. The proposed indexation of the Child Payment using a mixture of income and earnings measures ensures that it maintains its effectiveness as an anti-poverty measure, as it keeps pace with both inflation and productivity growth in the broader economy. This is consistent with the approach as used for the New Zealand Superannuation Fund.

### *Why a universal payment?*

97. A universal child payment is not an unusual policy for a country to follow. Indeed, 21 out of 34 OECD countries have a universal child payment as an integral part of their income support system for children. These are: the United Kingdom, Sweden, Slovakia, Finland, Poland, Austria, Norway, Netherlands, Hungary, Luxembourg, Ireland, France, Iceland, Estonia, Germany, Denmark, Belgium, Switzerland, Israel, Canada and Japan..
98. Universal components of tax and benefits supports for children reduce stigmatising the poor and generate greater public support for increased budgets, as many of those paying taxes to support these policies will also see some benefit from them (OECD, 2012). Universal child payments can also reduce the disincentives inherent in poverty targeting. While it seems counter-intuitive for many, the OECD experience has shown that countries relying heavily on poverty targeting have been less successful at reducing child poverty than those counties relying more on universal benefits (OECD, 2012).
99. One of the major purposes of a universal Child Payment is to recognise the external social benefits of raising children, thus offsetting some of the private costs which fall on parents. We believe a universal Child Payment for young children is also desirable for the following reasons:
  - It is simple and transparent, with relatively low transaction and compliance costs (compared with targeted forms of social assistance), and it would have virtually 100 percent take-up from birth

- It gives proportionally more to children in poorer families, and recognises that all parents with young children face significant costs
- It supports a parent to stay at home during infancy, enhancing parent-child bonding, encouraging child development and breast feeding, and supporting child-related parental well-being
- It directly supports all children, and so is not a direct cost on employers like paid parental leave; indeed, providing a substantial universal Child Payment during the first year of a child's life constitutes an alternative to extending the current paid parental leave arrangements and would be fairer, as all infants would benefit and not merely those whose mother was eligible for paid parental leave
- It provides a population database of the current location and principal caregiver of all young New Zealand children, from birth, which can be used for the provision of health and social services (including child abuse and neglect)
- It is likely to have broad social acceptance and hence longer-term certainty and sustainability
- There is a symmetry with New Zealand's policy approach to universality (National Superannuation) at the other end of the life-cycle, where labour market participation to generate income is again less of an option.

100. By providing universal payments only in early childhood, we are reducing the amount of cost of those getting benefits that do not need them, which is a big drawback of universal provision. Payments are only provided when: (i) parental labour supply, and hence family income, is restricted; and (ii) parents are generally younger and hence have lower potential earnings and hence income, compared to paying such a benefit for older children. A further restriction could be made to cap the family income eligibility for the payment, for example at \$250,000, to avoid paying the benefit to those with the highest income levels.

101. There may be some concerns that having a Child Payment, and particularly a Child Payment which is tilted towards younger children, will encourage people to have more children. Australian evidence suggests that the introduction of baby bonus payments, which are much more upfront in nature, had only very small and not statistically significant fertility impacts.<sup>2</sup>

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<sup>2</sup> Baughman and Dickert-Conlin (2009) show that the fertility effects of EITC in the United States have been small.

## The Young Child Carer Benefit

### *Recommendation 11:*

*We recommend that the sole parent domestic purposes benefit be re-named the Young Child Carer Benefit (YCCB), and that:*

- *the YCCB end at age six , except where the needs and best interests of the child or circumstances of the parent rule out significant labour market participation, OR*
  - *For parents unable to work due to illness or disability after the youngest child turns six, their Invalid's Benefit or Sickness Benefit should be maintained at a rate sufficient to provide for the child's needs.*
102. The YCCB recipient could be encouraged and supported into part-time work when a child leaves infancy. The support would be in the form of appropriate quality child care, and the encouragement would be in the form of work testing and employment support.
  103. There will be a minority of sole parents who have children with care needs so as to exclude them from full- or part-time paid employment. The system will need to be designed so that it can meet their needs (as the system currently is for those on the DPB with an eldest child 14 years and above where there is full-time work testing currently).
  104. Work testing from when the youngest child turns one year old is consistent with the current approach to job protection in the parental leave system. Job-protection exists up until age one, where the system then provides a strong signal that it is time for a return (often part-time in actuality) of the parent on leave to work.
  105. The reason for one year of job protection is that: (1) having someone at home with an infant is good for the child, and (2) longer periods out of the labour market are likely to be increasingly damaging to the human capital and positive work-related behaviours and attitudes of the care-giver, and hence the child.
  106. The belief that early parental re-attachment to the labour market for sole parents and high quality ECE of children is an integral part of the Nordic welfare systems, and this approach has achieved the lowest levels of child poverty in the OECD.
  107. When the youngest child reaches an age where full-time parental work is child age-appropriate, the YCCB could terminate. If the sole parent cannot obtain full-time employment thereafter, they will make a transition to the jobseeker benefit with a full-time work test. If they have health barriers, a health-related benefit may be appropriate.
  108. Clearly a more strongly work-focused system of this kind needs a supporting system of

ECE and care, plus in-work incentives for amounts of parental work which are: (i) consistent with maintaining and enhancing labour market connections; and (ii) supporting child well-being. Without this support in the system, there is no point in having a stronger work-test.

109. The question then arises of enforcing the mutual obligations on parents of the work test. Because of potential harm to children, income sanctions need to be a solution of absolute last resort. Solutions which can be effective in increasing parents' compliance with their work obligation, without punishing their children, include effectively taxing parental leisure via requirements for training or subsidised work, or income management of benefits until the work test is fulfilled.
110. An alternative approach would be to maintain the current work-testing arrangement for sole parents, but provide the positive incentives of the IWTC re-design (see below) and provision of ECE. This would, however, send much weaker signals about the importance of paid employment as a means of children of sole parents in exiting child poverty.
111. The typical approach in the Nordic countries is a full-time work test on sole parents following the end of the paid parental leave period, which typically covers infancy and some months beyond.
112. The research evidence, already discussed above, suggests that a part-time work test from infancy rising to full-time by (or even before) age six is likely to be appropriate for most children of sole parents. This system will need to be sufficiently flexible to allow for continued support for those children for whom parental employment is not appropriate (again, a strong child focus is necessary here).

### ***Recommendation 12:***

*We recommend as essential that provision of an employment-focused route out of child poverty is supported by the provision of high quality, age appropriate ECE and OSCAR services (for school age children) targeted at disadvantaged children, ensuring that those children are in an enriched environment whilst their parents are actively seeking work or are in paid work.*

113. We believe that ECE and OSCAR services would need to be income targeted, and consideration could be given to automatic enrolment for children of all parents who have been on a benefit following infancy (even if an older child age is chosen for the end of the universal child benefit and the beginning of parental work testing). The provision would be in addition to the existing 20 hours per week universally available for all three and four year olds.
114. The purpose of this targeted ECE and OSCAR provision is two-fold. It is primarily about achieving positive cognitive, behavioural and physical health outcomes for children so

that they are best prepared for taking full advantage of the opportunities in compulsory schooling. It is also about supporting parents in gainful employment, hence providing family income to support child well-being and development, now and into the future, via strong labour market connections. Lastly, parental employment is about providing a positive role model to the child as they age.

115. As noted in the review of OECD countries approaches to addressing child poverty (OECD, 2012), state support of child care was a key factor in countries that have achieved lower child poverty rates. Child care is essential in supporting parents, particularly sole parents, gain and maintain paid employment.
116. A full discussion of ECE, before and after school care and holiday programmes is included in *EAG Working Paper no. 16: Education solutions to mitigate child poverty*.

### **Longer term review of welfare benefits and the In-work tax credit (IWTC)**

117. There has been no assessment of the appropriate value of welfare benefits in real terms for several decades, nor of their appropriate relationship to in-work payments. These both ought to be reviewed against the extent to which their level is optimal, both from an income support perspective (including child poverty reduction) and in terms of encouraging gainful parental employment that is effective in reducing child poverty and meeting children's developmental needs.

#### ***Recommendation 13:***

*We recommend that the government should commission a proper independent review of all child-related benefit rates and relativities, including the IWTC. Such a review should consider, amongst other things:*

- *the principles for setting child-related benefit rates and relativities*
  - *the aims of, and eligibility criteria for, the IWTC*
  - *whether the IWTC, as currently designed, is achieving these aims in the most effective manner in combination with other current policies, and if not, what policy changes should be considered*
  - *the implications of the proposed Child Payment for the design of the IWTC, including: (a) the respective levels and structure of assistance provided via the Child Payment and the IWTC (including the level of assistance per child), and (b) the appropriate income thresholds and abatement regime, and*
  - *whether the IWTC, if it is to be retained in something approximating its current form, should be extended to include non-custodial parents on low earned incomes (to assist them to meet their child support obligations).*
118. Despite widespread use of in-work payments for parents with children in other OECD countries as part of a portfolio of policies to address child poverty, we acknowledge that there has been considerable debate about the efficiency and equity of the IWTC

and its impact on children in New Zealand (see St John, 2011).

119. The Income Tax (Universalisation of In-work Tax Credit) Amendment Bill was drawn by ballot on 16 August 2012 to be added to the Parliamentary Order Paper as a Private Member Bill. This Amendment Bill aims to replace the current system by extending the support criteria to all low-income families (so that the payment is based on income level, rather than work). We welcome the considerable debate and analysis on the IWTC having this Bill before Parliament will generate.
120. The IWTC payment is one of the means government uses to reduce child poverty. The IWTC is a payment to help with the costs of children but is withheld from parents who receive benefit income, or are unable to work a minimum number of hours per week (even when work is not available).
121. IWTC-type arrangements are widespread across the OECD. Their attractiveness is that they encourage more parents into paid employment, and enhance equity by:
  - raising incomes of children in low income working poor families, and
  - addressing transport and childcare costs that non-working parents and non-parents do not face.
122. In-work earnings supplements like the IWTC, as with any policy instrument, have their limitations. They do not address the issue of children whose parents are not working at any point in time, although we note exposure to the IWTC over the life course of the child is likely to be an order of magnitude higher than a point-in-time exposure. Some see this reward only to children whose parents are in employment and poor as discriminatory and hence undesirable. But many other policies are similarly discriminatory, including paid parental leave, which rewards only (young) children whose mother has a history of stable employment with the same employer. Equally, instituting a policy of child support pass-on to children supported by a sole parent benefit rate is discriminatory to poor children not eligible for child support, but this does not necessarily make it a bad policy.
123. The IWTC currently also delivers the same level of assistance (currently \$60 per week) irrespective of whether there are one, two or three children. Thus, while it allows for some of the fixed costs of a parent working, it does not take into consideration additional costs per child of the second and third child, and only \$15 per week for any additional children.
124. A further potential issue is the speed of abatement of the IWTC. A more rapid abatement in combination with a greater maximum payment may be fiscally neutral but more effective in encouraging employment and reducing child poverty.
125. As with many policies on the supply-side designed to promote employment, the IWTC is a relatively less effective instrument in protecting children from poverty in a

recession where jobs are comparatively scarce.

126. Design issues to consider include the need to ensure neutrality between in-work payments under shared care (where there is currently some eligibility for the IWTC) and sole custody of children.

### **Costing of proposed policy changes**

127. Costing of systemic changes sketched above is not an easy exercise, and to undertake it properly would demand considerably more time, resources and modeling expertise than is available to us at this juncture. This section sketches out the complexity of the work required and, where possible, provides some very rough indicative and partial numbers.
128. The costing provided here aims at generating the proposed 30-40 percent reduction in child poverty rates that we are recommending.
129. Costing depends on a number of interacting factors. There will be a large difference between the gross fiscal costs of the programme sketched out above and the net fiscal costs. Costing is also going to depend critically on the nature of the policy design and payment rates chosen, including:
  - choices of the thresholds for abatement against family income
  - in the case of the income-targeted child benefit, the maximum rates and the extent to which they decline with child age
  - the extent to which the payment threshold rises with child age and numbers of children.
130. A further consideration is the possible behavioural changes induced by the policies that could substantially lower the net costs compared to gross costs.
131. These caveats made, some rough costing of several components of the short and long-term proposals are provided here, **but these figures should be used with extreme caution.**

### ***Child support pass on and Family Tax Credit change costs***

132. Passing on child support to the children in sole-parent beneficiary households can be estimated in simple terms as the value of child support collected and maintained by the Crown. In 2011, Inland Revenue reported this amount to be \$159 million. If we divide this by the 133,500 children it was collected for, this is an average of \$23 per child per week, or \$1,200 per child per year.
133. Estimating the cost of the proposed rate changes to the Family Tax Credit is more problematic. It requires data on the current number and household composition of those entitled to the FTC and family income levels (to determine abatement). This data is not available. Experienced policy experts have noted that payment of equal

rates per additional child and a moderate rise in the maximum rate could cost in the range of \$300 - \$500 million per year, but no modeling sits behind this estimate.

### ***Child Payment***

134. As an initial estimate for the Child Payment, we assume universal payments made up to age three. Selecting a payment rate of \$8,000 for an infant, \$7000 for one-year olds and \$6,000 for two-year olds would cost about \$1.3 billion per year gross costs. There would be perhaps around \$500 million saved on the FTC and a further \$56 million saved in infant care subsidies, leaving \$750 million as a very rough net cost.
135. The number would obviously be considerably lower if the universal payment was an infant only payment, (a net cost of about \$300 million, as opposed to \$750 million). It would be significantly higher if payments continued up to age six. Raising or lowering the payment rates would also change the costs significantly.
136. If the universal child payment is made up until age 3, the remainder of the FTC and the smaller components of the Working For Families tax credits, namely the MFTC and the PTC, (total gross amount of about \$1.7 billion) could go into a fund to offset the targeted child payment for children aged 3 to 18 years (declining rate after age 14).

### ***Additional child care subsidies***

137. No attempt has been made to quantify the additional costs for subsidised provision of ECE and OSCAR to enable more parents to participate in paid employment.

### ***Total costs of short and long term proposals***

138. In total, rough estimate of net costs would be in the range of \$1.5-\$2.0 billion. The extent to which proposals would reduce child poverty would require modeling work via the Treasury's Taxwell model or similar vehicle. However, even this model does not allow consideration of the costing effects of behavioural changes.

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