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Social Service Providers Aotearoa (SSPA)

Submission on the Expert Advisory Group Report on Solutions to Child Poverty

Introduction

1 SSPA is a peak body representing some 215 NGO social service providers who are co-funded by MSD and private sources to provide a range of services for vulnerable children and their families, see [www.sspa.org.nz](http://www.sspa.org.nz)

2 SSPA runs professional development for members (and others) through written material, regional meetings, seminars and conferences with the aim of improving the effectiveness and efficiency of social service practice and NGO managerial decision-making.

3 This submission is presented in 4 parts:

(a) Context;

(b) Comments on the key drivers of the Report;

(c) Specific examples; and

(e) Recommendations.

4 SSPA prepares its submissions through a synthesis of member views, in house regulatory experience, research and contracted specialist advice. Member views are sought through a variety of means including surveys, an open invitation to members for comment on issues of interest, regular newsletters and regional meetings.

5 Please note the views in this submission don’t represent the views off all SSPA members, but the initial conclusions reached by the Board.

Context

6 In assessing the costs and benefits of any specific public policy settings or specific intervention it is important to have clear objective/s and be able to demonstrate the relative advantages of one option or combination of options over another.

7 The objective of public policy should be to maximise the wellbeing of individuals and communities over time. This requires ensuring that (a) allocative efficiency; (b) productive efficiency; and (c) dynamic efficiency are maximised. In short, an approach that allows:

*the goods and services necessary for vulnerable children to be produced at the right time/place, at the lowest possible cost while allowing for innovation over time*.

Innovation is important i.e. appropriately balancing short run concerns with concerns in the long run and which has sufficient focus on encouraging research and development.

8 Three other key considerations help shape the policy framework required for minimising harm to vulnerable children and their families and to maximise equality of opportunity for all New Zealanders:

(a) Incentives matter;

(b) Economic growth is very important; and

(c) Improving productivity is vital.

9It is important to acknowledge that incentives matter to people. An incentive is any factor, financial or non-financial, that enables or motivates a particular course of action, or counts as a reason for preferring one choice to the alternatives. It is an expectation that encourages people to behave in a certain manner. It is extremely important to test current regulation and any proposed new regulation against its likely incentive effect on vulnerable children and their families. The following table presents the incentives which may operate for vulnerable children, their families, communities, regulators and funders.

|  |  |
| --- | --- |
| **Incentives** | **Definition** |
| Financial | are said to exist where an agent can expect some form of material reward — especially money — in exchange for acting in a particular way. |
| Moral | are said to exist where a particular choice is widely regarded as the *right thing to do*, or as particularly admirable, or where the failure to act in a certain way is condemned as indecent. A person acting on a moral incentive can expect a sense of self-esteem, and approval or even admiration from his community; a person acting against a moral incentive can expect a sense of guilt, and condemnation or even ostracism from the community. |
| Coercive | are said to exist where a person can expect that the failure to act in a particular way will result in *physical force* being used against them (or their loved ones) by others in the community — for example, by inflicting pain in punishment, or by imprisonment, or by confiscating or destroying their possessions. |
| Natural | such as curiosity, mental or physical exercise, admiration, fear, anger, pain, joy, or the pursuit of truth, or the control over things in the world or people or oneself. Hope and opportunity are key drivers and motivators. |
|  | |

10 Incentives work in different ways depending on the individual, their circumstances and generally one size doesn’t fit all. It is clear that people are not influenced only by material constraints or that the range of behaviours people display will be tied mostly to changes in material constraints, however, financial incentives have strong impacts on behaviour. For example, some taxation and welfare systems can jointly contribute to keeping some people on benefits because the withdrawal of means tested benefits that come with entering low-paid work causes there to be no significant increase in total income. An individual may see that the opportunity cost of returning to work is too great for too little a financial return, and this can create a disincentive to work.

Economic Growth

11 Economic growth is also an important strategy to minimise harm to vulnerable children and their families. Economic growth stimulates higher employment since labour is a derived demand, that is, an increase in real GDP should cause an outward shift in the aggregate demand for some labour. People not only benefit economically from their jobs; mental and physical health is significantly affected by the psychological distress of unemployment. And the consequences extend far beyond individuals to their families, friends and communities.

12 Unemployment is generally defined as having a surplus of labour relative to demand. A surplus of labour is created by two things: (a) the price of the labour being too high; or (b) the services and goods people are willing to buy can’t be supplied by those unemployed i.e. a poor relationship to international and domestic demand.

13 There are a range of policy initiatives, on the supply and demand side, which will improve the employment outcomes for vulnerable children, their families and the wider community:

* improving the quality of education outcomes;
* increased spending on effective active labour market policies;
* improving the integration of migrants into the labour force;
* fostering flexible labour market participation and fighting discrimination;
* avoiding high and long-lasting unemployment benefits;
* ensuring benefit and income levels limit poor health/malnutrition, enable children to effectively engage in early childhood education and out of school care and allow the unemployed to job search;
* remove or reduce capita/ income tax distortions, increasing investment in “productive” activity leading to increases in employment; and
* increasing the flexibility of wage setting.

14 In the context of a worldwide recession, international restraints on credit and limited new Government spending, the value for money and effectiveness of the supply of services for vulnerable children and their families is very important.

Improving Productivity

15 Productivity is the mechanism through which society’s progress. Generally speaking, the higher the productivity of a country, the more wellbeing it can afford and the more wellbeing options it has to choose from. Wellbeing can include things like quality healthcare and education; excellent roads and other infrastructure; safer communities; stronger support for people that need it; and sustainability of the environment. Amongst the options may also be the ability to reduce taxation rates while still providing a level of government services that meets public expectations.

16 High productivity societies are those that make smart choices in areas such as savings and investment versus current consumption. New Zealand has slipped from one of the wealthiest countries in the 1950s to now around 26th in the OECD. It is not the case that our productivity has shrunk. Rather, the rate of increase in productivity has been behind other countries and our income growth has been slower.

17 Lifting productivity is ultimately the product of individual and organizational decisions about how to generate value. There are multiple determinants of such activity and decision making, including:

* the degree of openness and competition in markets, which are generally regarded as central to lifting productivity by improving how and where resources are used and incentivizing innovation and performance;
* investment and other strategic choices made by organisations (e.g., using new and smarter technology), which depend on the quality of governance and management;
* the attitude and effort of employers and employees toward ongoing training, finding business improvements and helping implement beneficial change;
* the quality of and access to education and the attitude of students to the value of learning and skill development;
* the quality of Government (and local government) decisions, in shaping and deciding where public money is spent and where it will come from, and implementing and operating the framework itself; and
* in homes in the aspirations of individuals and families, and the decisions taken to achieve those aspirations.

18 Competition and strong incentives for voluntary co-ordination are arguably the key drivers of productivity in the private sector as a greater level of competitive intensity encourages new business and increases the pressure on existing providers to improve the quality of their products and services (See *Productivity and Competition, An OFT perspective on the Productivity debate*, Office of Fair Trading, United Kingdom, 2007)

Comments on the key drivers of the AEG Report

19 The key components of the report are:

* our high relative levels of poverty;
* the need to effectively measure poverty;
* the centrality of employment as the key solution to child poverty;
* that income increases not changes to behavior or incentives are the key barrier to reducing child poverty; and
* that children have different but equal needs throughout their life cycle i.e. a universal approach to targeting is generally required.

Measurement of Poverty

20 Determining how to measure poverty, the level of poverty and its impact are not straight forward exercises. For example, the New Zealand [Family Violence Death Review Committee (FVDRC)](http://www.hqsc.govt.nz/our-programmes/mrc/fvdrc/) [submission](http://www.hqsc.govt.nz/assets/FVDRC/Publications/FVDRC-submission-on-the-Green-Paper-for-Vulnerable-Children.pdf) on the Green Paper notes:

“*Low socioeconomic status (typically defined as family income below the poverty line, under-employment, and low education) is one of the major environmental conditions associated with child maltreatment. However, while the research shows an association between physical abuse, neglect and poverty, it is not a causal pathway. The majority of families living in poverty raise their children well*.”

21 Our view is that, in general, the most useful measure of poor outcomes are low consumption (i.e. deprivation); not relative income measures. The latter is a distributional measure not a poverty measure *per se*. Relative measures suffer from not capturing the dynamic of changing income and outcomes within a population, but has the advantage of identifying what segments of the population have very low and persistence relative incomes i.e. beneficiary families; solo parents and some families with Maori and Pasifika children.

22 Relative poverty levels are snapshot picture in time that omits the transitional dynamics between poverty levels. Mobility statistics supply additional information about the fraction that leave a given poverty level. For example, one study finds that in a sixteen year period (1975 to 1991 in the U.S.) only 5% of those in the lower fifth of the income level were still in that level while 95% transitioned to a higher income category, see “*Income Mobility in the US from 1996 to 2005*”, Dept of the United States Treasury, 2007.

23 Perhaps the most insightful New Zealand research on these issues is “*Dynamics of Income and Deprivation in New Zealand, 2002‐2009, A descriptive analysis of the Survey of Family*, *Income and Employment”,* Kristie Carter Fiona, Imlach Gunasekara (2012)”, which argues:

* substantial income mobility, both up and down though the ‘typical’ relative position remains;
* generally, those with the lowest relative incomes had a rise in real income and those with the highest relative income had a fall in real income;
* there was substantial income mobility i.e. 16%had low income in 5 or more of the 7 years surveyed while 6% were in deprivation at 2 or more of the 3 deprivation surveys undertaken; and
* roughly two thirds of those with a low income in one survey had chronic low income (i.e. average income over the 7 years below the average low income).

24 The table below presents the characteristics of people with persistent low income and those more likely to have persistent low income, and the characteristics of people in persistent deprivation and more likely to be in persistent deprivation in the paper.

|  |  |
| --- | --- |
| **Variables** | *Characteristics* |
| **People with persistent low income** | *Aged 25 to 64, New Zealand European, have no qualifications and couple parents.* |
| **People more likely to have a persistent low income** | *Over 65s, Maori and others who are not New Zealand European, no qualifications, sole parents* |
| **People in persistent deprivation** | *Aged 25 to 64, New Zealand European, have vocational qualifications and are sole parents.* |
| **People more likely to be in persistent deprivation** | *Under 18s and youths, Maori, those with low qualifications, and sole parents.* |

25 This work illustrates nicely that static income inequality is only part of a much richer story and this wide range of mobility experiences warns against overly simplistic generalisations and further research is needed into what makes people truly resilient to falling into poverty. Note the research doesn’t include variables such as debt and capital. However what is clear is the incidence and overall prevalence of deprivation is strongest among sole parents, and their mobility also tends to be lowest.

26 This paper in our view “*Fiscal Incidence in New Zealand: The Distributional Effect of Government Expenditure and Taxation on Household Income, 1988 to 2010*”, Omar A. Aziz, Matthew Gibbons, Chris Ball and Emma Gorman, New Zealand Treasury (2012) provides general support for such an approach i.e. emphasis’s mobility via employment and specifically target deprivation and persistent low income.

27 While noting the work offers partial insights into complex changes in income and expenditure distribution, the work compared the fiscal incidence of government expenditure and taxation between 1988 and 2010. The findings:

* market incomes have increased for deciles six to ten, although between 2007 and 2010 the economic downturn reduced market incomes for the top income decile;
* usually only decile 10 has experienced an increase in its tax burden, although the fall in market income for decile 10 in 2010 meant that this decile was also paying less tax;
* income support expenditure has benefitted lower income deciles most, although the redistributive effects of spending have varied and been affected by the level of targeting, the age of eligibility for superannuation, and the mix of spending;
* disposable income, which is market income plus income support but less direct taxation, was higher in 2010 than in 1988 and 1998 for all deciles except decile one;
* health and education expenditure have substantially increased since 1988, and have increased the consumption possibilities of all household income deciles;
* final income, which is disposable income plus health and education expenditure but less indirect taxation, has been considerably more evenly distributed than market income, and has increased for almost all income deciles; and
* households in deciles seven to ten have consistently paid more in tax than they have received in income support payments and in health and education services. Nevertheless, income inequality increased in New Zealand until 2007 irrespective of the income measure used, although since 2008 this has reduced.

Our take on these trends is that policy should emphasise mobility via employment in the first instance and specifically target deprivation and persistent low income.

Centrality of Economic Growth and Employment

28 Economic growth is arguably the most reliable way to address average living standards, poverty, fiscal soundness and the viability of welfare transfers over time. The key driver of economic growth is improving productivity over time i.e. more output for less cost, so policy settings need to reduce costs and increase the marginal benefits of the goods/services we produce.

29 As Paul Krugman notes “Productivity isn’t everything, but in the long-run it’s almost everything.”  This is hard for Governments as it means what workers produce, how they produce it and the price of that labour will have to change over time. That means businesses closing, new businesses opening, workers having to learn new skills, workers being sacked etc. This renewal is necessary, but what is equally important is how policy settings make these transitions equitable and efficient, especially workers having top generic skills, a mind-set of change is good and adequate income protections.

30 The value of employment is well noted in the report but very short on policy prescriptions to achieve higher productivity, greater wealth and employment. It’s the quality of the employment that drives wealth creation i.e. individuals must produce goods/services at a price/quality domestic and overseas consumers are willing to buy. It’s easy to employ 1000 more Policy Analysts and say unemployment is down but which is unlikely to reduce child poverty.

31 Increasing income inequality has been attributed to technological change, globalisation and changes in the make-up of households. Evidence suggests that increases in single adult families and changes in social-demographics played a role in the increase in inequality in New Zealand. Empirical evidence linking inequality and growth is very inconclusive**,** See “In *Defense of Equity*”, Prospect, Richard Wilkinson, 2010, **“*Why Inequality Matters, and What We Should Do About It*”, Andrew Leigh, Federal Member for Fraser, Labour Party, Sydney Institute, 2012,** *“Economic Growth and Subjective Well-Being: Reassessing the Easterlin Paradox”,* Betsy Stevenson, Justin Wolfers, University of Pennsylvania, Brookings Papers on Economic Activity*,* Spring 2008. However, there is somewhat more evidence available regarding the marginal effect of growth policies, both structural and taxes:

## *Illustrative policies to lower income inequality and lead to higher GDP:* (i)Improving the quality, quantity and equity of education outcomes; (ii) increased spending on effective active labour market policies and improving the integration of migrants into the labour force; (iii) fostering female labour market participation and fighting discrimination; (iv) reducing tax expenditures on higher incomes; and (v) moving from labour income to property and capital gains taxes.

## *Illustrative policies that could lead to higher GDP but have an uncertain effect on income inequality:* (i) avoiding high and long-lasting unemployment benefits; (ii) product market reform; (iii) lower minimum wages; and (iv) shifting the tax base away from income and labour tax to property wealth and inheritance taxes.

#### Illustrative policies that could lift growth but would likely lead to higher inequality: (i) increasing the flexibility of wage setting; and (ii) shifting the tax base away from income and labour tax to real estate or consumption taxes.

32 A sole focus on reducing income inequality is overly simplistic. This [OECD study](http://www.oecd.org/els/socialpoliciesanddata/49499779.pdf) looks at income growth for the top 10% and the bottom 10%, between the mid-1980s and the late 2000s (*Divided We Stand: Why Inequality Keeps Rising*, OECD, 2011).  It seems reasonable to assume that if the income of the rich is growing much faster than the income of the poor, then inequality is increasing, and vice versa.  So rather than look at all countries, if you focus on those where the difference is significant, say more than 1% per annum.  There are 8 countries where the rich did much better than the poor, headed by Sweden:

**Country   Top 10%   Bottom 10%   Gap**

Sweden       2.4%         0.4%         2.0%

Britain         2.5%         0.9%         1.6%

Germany     1.6%         0.1%         1.5%

New Zealand 2.5%       1.1%           1.4%

USA             1.5%         0.1%         1.4%

Norway        2.7%         1.4%           1.3%

Finland         2.5%       1.2%           1.3%

Holland         1.6%       0.5%           1.1%

And there were four countries where income got much more equal:

Portugal     1.1%         3.6%        2.5%

Greece       1.8%       3.4%         1.6%

Spain         2.5%       3.9%         1.4%

Ireland       2.5%       3.9%         1.4%

33 So while income inequity was improving in Spain, Greece, Portugal and Ireland over the period, Govt. debt levels as a percentage of GDP were greatly expanding and unemployment rates for young people under 25 reached very high levels (Eurostat, 2012).

|  |  |  |
| --- | --- | --- |
| **Country** | **Current Govt. debt levels as a % of GDP (2010)** | **Unemployment rates for young people under 25 (2011)** |
| Spain | 63% | 46% |
| Greece | 144% | 44% |
| Portugal | 84% | 30% |
| Ireland | 94% | 29% |
| New Zealand | **23.7%** | 15/19 yrs 10%  20/24 yrs 16% |

Clearly just using one data point, be it income inequality, GDP, child poverty, public/private debt etc to illustrate the value of different policy setting or wellbeing can be very mis-leading especially over the long-run.

Income, Behavior and Incentives

34 The issue of higher income via higher transfers to people on benefits is a balance between payment adequacy, fiscal affordability and the incentives for self-support. The bulk of the evidence suggests that higher unemployment benefits have the effect of decreasing transitions from income support into work. This effect is not as large as some have claimed and there are theoretical reasons where you might think it could go the other way e.g. if someone is having difficulty affording the costs of work clothes etc.

35 But the majority of evidence, work such as “*Unemployment Compensation and Labor Market Transitions: A Critical Review*”, Anthony B. Atkinson and John Micklewright, Journal of Economic Literature, 1991, “*Do Unemployment Benefits Increase Unemployment? New Evidence on an Old Question*”, Peter Fredriksson, Martin Söderström, Institute for the Study of Labor, 2008 and “*Dimensions of Tax Design*”, The Mirrlees Review, Sir James Mirrlees, Institute for Fiscal Studies, Oxford University Press, 2010, support this position.

36However other transfers i.e. effective marginal tax rate reductions have greater support in the literature, as they introduce positive real income increases while also improving the incentives to search for work, if people response to rational fiscal incentives, there are jobs available and they have the skills/experience required for those jobs.

37 Perhaps the other key factor which impact on child poverty that is not discussed in any detail is changes in family structure over the last 30 years. Family structure does affect income i.e. there are inherent economic disadvantages to being divorced with children or unmarried with children. Raising a child without a spouse is very challenging. There are fewer economies of scale and the single parent may have to take lower-paying jobs that are sufficiently flexible to allow for parenting while single. In both of these cases changes in family structure lead to lower incomes, but it is the social factors and decisions that are driving the reduction in income/support not differential returns to low and high skills in the labour market. Our number of teenage pregnancies and sole parents is very high and such individuals have the highest prevalence of deprivation and less mobility of all population groups. We will return to this issue shortly.

38 While we believe some families do not have adequate income to allow their children equality of opportunity, just increasing the income alone may not address embedded behavioural, competency limitations or other problems e.g.  budgeting issues, drug addiction, poor parenting, alcohol use, health or skills/experience barriers to gaining employment or higher wages.

39 Current Government interventions and funding (both universal and targeted) address income, information and behavioural issues for at risk children and families:

(a) Family planning;

(b) Antenatal classes;

(c)  Pre-birth and post-birth care;

(d)  Well Child/Tamariki Ora;

(e)  Whānau Ora;

(f)   Family Start;

(h)  Free health care for under 6’s;

(i)  Pre-school subsidies;

(j) Benefit transfers;

(k)  Paid parental leave;

(l)  Working for Families; and

(m) Child care subsidies.

40 Whether this investment, the balance between the interventions and the nature of the targeting of this entire suite are optimal for the most vulnerable children and families is not clear. Measures to increase family income will be most effective in improving child outcomes if they are targeted to the poorest families, very early in the life of the child. Rates of return are highest when interventions focus in the early years because competence builds competence and because society has the longest time to recoup the investment (“*Doing Better for Children*” OECD, 2009). It would be useful for the AEG to consider this in further detail as this suite of interventions represents our core protections against child poverty.

41 There are multiple views on why poverty persists across generations in New Zealand, with two extremes. One the “hardline” conservative view, poverty is the result of bad choices: not staying in school; not taking a job; and not waiting to have a child. At the other end is the “liberal” social justice view that poverty is simply a lack of money and quality service’s supplied via taxes by Government. Provide enough income support and intergenerational poverty will disappear overnight.  Both hold true for some populations at the margins but strong incentives to job search, adequate income protection, a strength based approach to interventions  based on localised individual need and a very strong focus on economic growth cater for the majority of vulnerable families and children at risk.

Targeting

42 The AEG report recommends a move from targeting to universal transfers. In assessing the appropriateness of universal or targeting of social services the following principles are useful to consider:

* the nature of the problem to address;
* efficiency including the deadweight cost i.e. funding services that may be provided anyway;
* fiscal sustainability of the intervention;
* spread of the harm in the population;
* ability to discover and prevent any material harm at low cost;
* suitability of proxies to identify those harmed; and
* administration costs.

43 We believe the EAG should present analysis against the above factors in considering if current or future services/transfers are to be universal or targeted. To date we are not convinced of the merits of universal child payments. Further in the absence of detailed costing information, it is difficult to comment on the merits, as the affordability, opportunity costs and trade-offs cannot be fully considered.

44 We note that two general arguments are run in support of universal services/ transfers (a) the possible stigma caused by targeting; and (b) drop in middle class support to assist low income earners as others don’t benefit from targeted services/transfers. However we feel both arguments lack weight i.e. will people on low incomes feel any better if they trigger huge deadweight costs? Further we feel middle class support to assist people on low incomes isn’t so fly by night and misreads New Zealander’s generally positive views on helping those prepared to help themselves. All welfare systems are like buckets, they will leak a little but the key may be refinement as we go not large increases in deadweight expenditure.

45 We also believe it is appropriate to re-consider people’s ability to pay in assessing Government funding, and what services should be universal and what targeted. This is a difficult conclusion for a peak body of social service providers to reach, however the below analysis, *prima facie,* seems very counter intuitive:

“*For example, government spending on social services (i.e., health, education and*

*income support) increased by almost 20 per cent more for households in the top half of the*

*income distribution than for households in the bottom half of the income distribution*

*between 1997/98 and 2009/10 (figure 18). The spending increases for higher‐income*

*households have been primarily driven by higher education, health and NZS expenditure.*

(“*Brief for Incoming Minister”,* Treasury, 2011)”.

46 We would value a clear formal statement (pre- budget) from Government about how it plans to prioritise the spending of new budget money, in short, what ranking vulnerable children will be given, relative to, for example only, subsidies for new war memorials ? We believe it is also prudent to investigate the Government spend inside and outside Vote Social Development to see if expenditure is of higher value than the expected return on children with vulnerabilities and their families, e.g. the financial return on EFTS subsidy for provision at levels 1 to 4 is very low.

 Specifics Examples

47 We are drawn towards thinking about policies that minimise child poverty without reducing economic growth, have low deadweight costs and create positive incentives to seek and maintain employment over time. The AEG report covers a wide range of possible uncosted recommendations which makes cost/benefit analysis very difficult; however we offer the following discussion on:

* teenage pregnancy/solo parents;
* debt for vulnerable families ;
* subsidised breakfasts at early child providers and schools; and
* supply of low cost quality housing and warrant of fitness standards for rental dwellings.

Teenage pregnancy/solo parents

48 Some 22.2 per cent of babies born in 2011 were dependent on a caregiver receiving a benefit by the end of the same year, almost half of the caregivers were Maori and half were aged 24 years or younger (Ministry of Social Development, OIA request, 2012). In short, almost a quarter of babies are born into relative poverty each year with a unique subset of significant challenges ahead.

49 An assessment of the issues surrounding unplanned pregnancy and the associated costs including the impact on children over time is very useful to illustrate the complexity of human decision-making, the diversity of incentives and environmental factors on behaviour and the potential value of universal provision in some circumstances.

50 Some women/girls get pregnant without reasonable planning and their support networks/family and/or partner may have a limited knowledge and/or skills to effectively support the baby and mother; the following illustrates the drivers and circumstances:

* contraception takes planning and forethought, and not much of that is present when you are drunk or out of it;
* teenagers often take risks and having sex without thought of the consequences is just one of many that the average teenage may take;
* others have a deep seated need to be loved unconditionally and a belief that a baby will provide that;
* some live ‘accidental’ lives as in whatever happens, happens and you just go with the flow, with little sense that they have a role to play in ‘controlling’ their lives;
* others see pregnancy as a lifestyle option, with a sense of being valued for being a mother and carer
* pregnancy can also be a result of abusive situations (i.e. rape and coercive sex); and
* pregnancy can result from someone else’s desire i.e. the effort to please or maintain a relationship.

51 Clearly the above is a complex mix of environments and incentives and presents difficult public policy questions. However, we believe there is value in reviewing the current mix of family planning advice/support provided for at risks teenagers, as access to and the price of contraception do not seem to be significant factors.

52 Further a better understanding by all New Zealanders of what drives successful child development i.e. what do children actually need to thrive, is critical.  A current DIY approach to parenting and child rearing isn’t the answer and we need to normalise parenting education and not let it be seen as only something for “weak” or “poor” parents, with the simple message of letting everyone know parenting is hard work but enjoyable if you have realistic expectations.

53 There is limited research with control groups on the drivers and policy response to teen pregnancy, however, two policies in the USA i.e. expanded family planning assistance to low income women and reduced welfare benefits did seem to matter and accounted for about 12 per cent of the drop in teen childbearing. This outcome is framed as being a small impact, but it is the only combination found that had any effect, see *Why is the Teen Birth Rate in the United States So High and Why Does It Matter?*, Journal of Economic Perspective, Volume 26, Number 2, Spring 2012, Pages 141–166. It's also the policy combination that the New Zealand Government is currently running: tighter work requirements for those with young children and enhanced access to contraception.

54 The Families Commission (FC) has just released research looking at the factors that would prevent subsequent births to teenage parents and analysed the implications and motivations of first and subsequent pregnancies and considered ways to strengthen support for preventing repeat teenage pregnancies. The FC work doesn’t mention work testing or reduced welfare benefits but focused on:

* easy and affordable post school education and training;
* dedicated support person/mentor;
* teen mothers groups;
* engaging with fathers; and
* continuous support for contraceptive use.

55 We think the integration of a package of support for sole parents has merit subject to costing:

* access to childcare;
* early childhood education subsidies;
* better marginal tax rates combined with tight work requirements for those with young children;
* additional universal health checks for children;
* enhanced access to contraception;
* with a dedicated support person/mentor to assist in networking, engagement with fathers, facilitating access to appropriate education/training and/or employment; and
* the proposed advanced payment model.

Such an approach also recognises that sole parents to date have the strongest incidence and overall prevalence of deprivation and very poor income mobility.

Debt for vulnerable families

56 High levels of debt can break vulnerable families with dire consequences for children but debt can also be a valid way out of poverty for many.

57 No trading bank will generally lend to the most vulnerable, as such transactions involve very small margins, large transaction costs and massive information problems about the risks involved.  Subject to a principle in statue which says interest commitments entered into with high risk lenders have to be payable on the current income of the individual family taking out the loan adjusted for risk, we see not material policy issues in the current regulation of what you refer to as “loan sharks”.

58 Truly high interest borrowing are only a tiny proportion of all the 'problem borrowing' for vulnerable families. The vast amount of consumer interest burden is not from these short time /high interest loans, but from the bigger and most reputable lenders (?) like Visa, the Trading Banks etc. It’s perhaps ironic that such lenders may position themselves as the responsible good guys and are perhaps happy to see all the vitriol being directed at the margins of the lending system. Would AEG consider Visa a “loan shark”?

59 Very short time/high interest lenders have strong incentives to ensure commitments entered into are payable i.e. they want paid; defaulting brings no windfall gains as borrowers have no or little capital; WINZ isn’t going to pay the loan back; and the person with the loan may get made bankrupt so the lender gets nothing as the loan is unsecured. Further:

* one of the reasons the sector has such bad press is the "finance rate" Government mandated in the early 1990s for all financial providers. It builds in the one-off financing costs/application fees and projects the total cost as an annual rate, making the rates look pretty ridiculous without the context; and
* unnecessary regulation or banning may drive “loan sharks” to go under the radar to the black market and you actually put vulnerable borrowers at greater risk.

60 Wesley Community Action (WCA) recently got 30 or so “loan sharks” and other stakeholders around a table in Porirua to talk about ethical lending in their community. The outcome was a understanding that “loan sharks” are an important part of community and one way to get out of poverty for some i.e. if you don’t fit the WINZ criteria but need a suit or car to get to work etc.  While there is clear value in the sector continuing to mature and working more with the trading banks more, as “loan sharks” have the experience and knowledge about locals risk functions, so will better able to match risk to return. Of course the interest rates will be higher, it’s a simple function of relative risk, but it’s a pretty competitive market i.e. many suppliers with downward pressure on price and the ability to shop around.

61 An alternative often discussed is capping interest rates, after reviewing the literature the evidence suggests that introducing interest rate caps on financial loan companies has mixed success, and often brings with it many unintended consequences. One of the greatest risks is greater financial exclusion. If a lender is constrained in the rate of interest they can charge, they will not lend to anyone whose rate of risk they calculate to be above the cap. If lenders can’t lend according to risk, this could also lead to higher prices for all customers. Interest rate caps are often described as a 'blunt instrument' since not all high interest loans are necessarily unfair or result in over-indebtedness, and not all consumers may underestimate the risks of high cost credit. Enforcement of price controls, including interest rate caps, is expensive and also difficult to administer.

62 A recent European Commission report found interest rate caps tended to reduce access to credit, particularly for low-income borrowers; reduce the choice of products available to consumers; and increase the overall cost of credit in parts of the market. The study also found little evidence that credit price restrictions helped to reduce overindebtedness. See “*Study on interest rate restrictions in the EU*”, Prof. Dr. Udo Reifner, Sebastien Clerc-Renaud, RA Michael Knobloch, Institut für Finanzdienstleistungen (2011).

Subsidised breakfasts at early child providers and schools

63 Most academic research has shown that a regular breakfast is associated with better academic outcomes, and overseas evaluations of free school breakfast programmes have usually, though not always, shown a lift in school performance by some students.

64 However there are a number of key questions we need to address, firstly: what is the nature and magnitude of children going to early childhood providers and schools with out breakfast?

65 The Health Sponsorship Council’s 2007 Children’s Food and Drink survey provides the most recent snapshot of children’s eating habits. In summary there is only a small group of children who are going to school regularly without breakfast at primary school age (2 to 3 percent of children aged 5 to 12). Most of the issue was at secondary school age (14% of children aged 13 to 16). The study covered children aged 5 to 16 and the commonly quoted figure of 40,000 children without breakfast appears to be derived from it. Note the data was collected prior to the full impact of Working for Families and excludes children at early childhood providers.

66 The study showed that:

* 94% of parents and caregivers said that their child had breakfast most school days (83% every day)
* 6% said that their child never ate breakfast on school days, and 3% said that their child never eats breakfast on weekend days.
* 93% of parents and caregivers said that their child took food and drink to school from home, and over eight out of ten (81%) said that this happened every school day
* 5% said their child never, or only rarely, took food to school; and
* 97% said their children had breakfast most weekend days (80% every weekend day).

67 Further the survey showed that the largest group skipping breakfast was teenagers. Fourteen percent of children aged 13 to 16 never had breakfast on school days, and another 14 percent skipped breakfast sometimes. By comparison only 2 percent of young children (5 to 7) and 3 percent of older primary school children (aged 8 to 12) never had breakfast, though about 8 percent of each age-group sometimes skipped breakfast. Overall about two-thirds of the young people who never had breakfast were at secondary school.

68 We do not know how many of these children do so because they do not want breakfast, and how many because it was not available. There is a suggestion that some of these children, particularly in the Pacific community, do not have breakfast because of cultural norms, and addressing this may be a matter of education.

69 You have cited as key evidence that:

“A Ministry of Health survey found that 20.1 percent of New Zealand households with school-age children did not have enough food for active and health living. This percentage significantly increased for Pasifika and Māori families, large families, and those from the lowest socio-economic groups (Parnell, et al, 2003; in Yates et.al, 2010). Children in low-income households are also more likely to have higher cholesterol intake and eat fewer healthy foods than their peers in higher income households (Smith & Brown, 2010)”.

70 The Ministry of Health study had eight food security questions. Overall 20.1 percent of households answered “sometimes” when asked whether they could “afford to eat properly”. The other seven questions give a richer picture of what this “sometimes” actually meant in terms of food availability. They show the following:

|  |  |  |
| --- | --- | --- |
| **Percent of households** | **Often** | **Sometimes** |
| Run out of basic food (not luxuries) | 3.6 | 18.5 |
| Have smaller meals than they would like or skip meals | 2.8 | 15.3 |
| Have a more limited variety of foods than they want  (This was not defined as basics, but rather what they would like to eat so was a less targeted as a question than the others.) | 9.0 | 25.6 |
| Rely on others for help | 1.5 | 10.3 |
| Use food grants/banks | 0.8 | 8.6 |
| Are stressed about lack of money for food | 6.4 | 18.1 |
| Have been embarrassed when no food for social occasions | 3.3 | 16.9 |

71 From this you can infer that most of the 20.1 percent of households only lacked food intermittently, but between 3 and 6 percent of households had levels of food insecurity that were likely to significantly impact on their well-being. The rates for severe food insecurity for some specific populations were:

* high deprivation areas (a rate of 8 to 15 %);
  + Maori (6 to 12 %); and
  + larger families (more than five children 6 to 13 %).

72 Further a researcher from this study was recently quoted:

“Otago University human nutrition and poverty professor Winsome Parnell, said a 2002 survey that she held helped the Health Ministry with, found that 5, 6 and 7 year olds had “pretty good” diets. She was concerned that a blanket provision of food to lower-decile schools would erode parental responsibility. “Parents should be given the means and dignity to feed their children”, she said. “The Government should be making sure families can afford to feed their children themselves.” *Dominion Post*, September 11, 2012.

73 One can take from the research to date that a lack of food in the home is not likely to be the root cause of a lack of breakfast, only in a small minority of cases. In some cases there may be cultural causes why children lack breakfast, and in others it may be a matter of parent’s priorities. In summary, however, the data does not suggest that there is a widespread or systemic problem in New Zealand.

74 In almost all western countries, providing food in schools has ended up as a major cost to government, costing between 10 and 25 per cent of the total cost of running the entire primary school sector, see, “*Rethinking School Feeding: Social Safety Nets*”, World Bank, (2009). This would be a significant new investment In New Zealand when other improvements to the early childhood and schooling system may produce better outcomes for learners. It is generally accepted that the most effective investments in schooling include:

* high quality teacher training and professional development;
* effective systems to identify and respond with extra support when students are at risk of falling behind;
* supporting effective leadership and the development of learning organisations in schools; and
* outcome measurement and accountability systems that focus on student achievement.

75 The World Bank reviewed the value of these programmes in 2007 and their literature review suggests that there have been few attempts to compare school food with other safety net options in western countries, however:

* the programmes have most value in countries where there is a problem with school attendance;
* the programme has significant costs associated with it (such as purchasing, storing and cooking the food) and so these costs need to be considered carefully;
* in many countries, particularly western countries, some part of the rationale for the programme is the support it provides to local agriculture; and
* school food programmes are able to be carefully targeted, but this requires tight control on the pressure to expand who gets the food and what kind of food is provided.

76 There are already a number of programmes addressing this issue, notably government funding through the Fruit in Schools programme and decile funding for schools, and NGO and private sector programmes such as KidsCan (which we understand gets approx. 10% of its funding from Government), Fonterra’s milk in schools, and Sanatorium’s Kick Start breakfasts in schools

77 While the data does not suggest that there is a widespread or systemic problem, any additional Government funding needs to ensure:

* the funding goes to the most disadvantaged children; and
* incentivised further interventions when appropriate i.e. access to more comprehensive help for at risk children not just providing access to immediate food.

78 This suggests that any additional funding should be targeted through either the equity or decile funding of early childhood education providers or schools and more intensive care provided through the NGO sector via the social worker in low decile schools type initiatives.

79 There is a pretty robust policy case for considering higher funding for low decile early childhood education providers or primary schools given the strong link between student achievement and socio-economic status in New Zealand and the comparatively low level of targeted funding compared to most OECD countries. This would leave the decision on when food is provided and to whom to be managed by the early childhood education providers or schools and other private parties they wish to work with. Ultimately however we need to encourage parents to take the long term responsibility for feeding their children.

# 80 In determining the level of additional investment between the early childhood providers or schooling, it is useful to note that broad-based increases in participation in early childhood education can help to raise per-capita GDP by increasing labour market participation by parents. However over time the greatest productivity gains will come from the impact that high quality early childhood education has on children’s learning, an impact that is greatest for children from disadvantaged home environments. (“*Working Smarter: Driving Productivity Growth Through Skills*”, New Zealand Treasury Productivity Paper, 2006). If you combine these assumptions with the generally accepted view that children’s brains are developing the most from 0 to 3 years, this would suggest, *prima facie*, that new funding should be targeted at children in the early childhood sector in low decile areas.

Supply of low cost quality housing and warrant of fitness standards for rental dwellings

81 The drivers behind the affordability of our housing stock are complex and have recently been reviewed by the New Zealand Productivity Commission (NZPC) with the following conclusions:

* taxation policy was not a key driver of housing affordability;
* containment policies such as ‘Smart Growth’ and Auckland’s Metropolitan Urban Limit (MUL) were have an adverse effect on housing affordability by limiting the availability of land for housing;
* a need to urgently release new land for residential development in high demand areas such as Auckland and Christchurch; and
* reconsider the current social housing policy settings.

82 The report notes the “community housing sector has a unique and very valuable role to fill.  It can provide below market rents and more security of tenure than is available from private landlords. It is also well suited to providing the range of ‘wrap around’ services required by many social housing tenants with needs that run well beyond just affordable housing”, see “*Housing Affordability*”, NZPC, (2012).

83 It is difficult to get a definitive answer on the size of the rental housing problem (defined as accommodation below a reasonable standard), one estimate is 300 urban homeless with between 500 and 1000 people in rural improvised housing, and between 8,000 and 20,000 in temporary accommodation, so a range between 12,000 and 22,000 people, see “*Home and Housed: A Vision for Social Housing in New Zealand*”, Housing Shareholders Advisory Group, 2010. However, this analysis has been criticised as being very light on the number of homeless people and for not addressing the endogeneity issue i.e. part of the rental problem is overcrowding, for example three families in a three bedroom house.

84 We have a strong view that housing stability is an important element in forming community cohesion and well-being especially for families with young children, mixed with the necessity of labour market mobility. High levels of transience is very detrimental to healthy attachment formation in young children, see “*Implications of Homelessness for Parenting Young Children: A Preliminary Review from a Development Attachment Perspective*”, Infant Mental Health Journal, [David DH](http://www.ncbi.nlm.nih.gov/pubmed?term=David%20DH%5BAuthor%5D&cauthor=true&cauthor_uid=22685362), [Gelberg L](http://www.ncbi.nlm.nih.gov/pubmed?term=Gelberg%20L%5BAuthor%5D&cauthor=true&cauthor_uid=22685362), [Suchman NE](http://www.ncbi.nlm.nih.gov/pubmed?term=Suchman%20NE%5BAuthor%5D&cauthor=true&cauthor_uid=22685362), Yale University School of Medicine and Yale Program for Recovery and Community Health, 2012.

85 We are not qualified to comment further on the macro drivers of low cost housing, but believe there is value in identifying the areas of possible market and Government failure which further research could focus on:

* barriers to the supply low cost accommodation i.e. Resource Management Act restrictions, low private return, limited social housing investment, higher risk profile of some tenants; and
* potential information asymmetry and opportunism by both renters and landlords.

86 For some renters and landlords housing is kind of an experience good, it’s difficult to assess quality until you have experienced it.  Some form of minimum information provision may therefore reduce waste and costs for both renters and landlords. It is important to consider the information problems faced by both owners and tenants because face different issues:

* adverse selection ‘problems’ for renters, it may be hard for potential renters to know if the place is adequate heated, the insulation sound, is sanity and safe etc; and
* moral hazard “problems’ for owners who can’t observe if renters are maintaining the place, not doing activities required to maximise insulation/heating i.e. airing houses, opening  windows, and keeping curtains drawn to maximise heating etc.

87 As we understand it there isn’t a New Zealand rental regulatory minimum standard for renters or landlords.  There is a building code but much of that applies to housing constructed after certain periods, and is agnostic on whether the house is for owner or renter use.  There are also laws and regulations applying to different components of a house e.g. plumbing, gas fitting etc.

88 Many OECD countries have minimum standards e.g. the United Kingdom has a minimum fitness standard for housing which states that for a dwelling to be fit for human habitation it must:

* be structurally stable;
* free from serious disrepair;
* free from dampness prejudicial to the health of the occupants (if any);
* have adequate provision for lighting, heating and ventilation;
* have an adequate piped supply of wholesome water;
* have satisfactory facilities in the house for the preparation and cooking of food, including a sink with a satisfactory supply of hot and cold water;
* have a suitably located water-closet for the exclusive use of the occupants (if any);
* have a suitably located fixed bath or shower and wash-hand basin each of which is provided with a satisfactory supply of hot and cold water, for the exclusive use of the occupants (if any); and
* have an effective system for the draining of foul, waste and surface water.

89 While a dynamic warrant of fitness approach based on similar standards may reduce information problems for some renters, it does little more for landlord’s information problems about the quality and behaviours of tenants post contracting. Further a warrant of fitness is almost certain to drive up renting costs and reduce supply in the short-term as some properties will not pass the test. However the other driver is will such an approach improve the quality of the rental stock at reasonable cost? This requires a full cost/benefit analysis by appropriate Government agencies which also assess the impact of the sequencing of any proposed changes. There are serious trade-offs to consider in raising quality and supply at the same time.

90 Note the likely on-going costs are significant, there are approximately 67,700 HCNZ householdsand 467,300 private rental households (“*Home and Housed: A Vision for Social Housing in New Zealand*”, Housing Shareholders Advisory Group, 2010) which would require a warrant of fitness test to be undertaken on an on-going basis.

91 We strongly believe there is also considerable value in faith-based and other suppliers of rental accommodation for those on very low incomes to merge, create greater economies of scale with a strong brand presence to drive higher voluntarily standards and disclosure to differentiate themselves from lower quality suppliers. Government could assist in taking both a leadership and lowering the sunk costs of this type of approach.

92 Further we also strongly support a voluntary approach along the lines of the Governments current insulation scheme e.g. low-interest loans to a specified group of landlords to bring their houses up to a specified standard, targeting particular disadvantaged neighbourhoods.  It could cover repairs or work to address specific issues e.g. ventilation, insulation, heating, stopping drafts etc.  This would have a lower-cost than a mandatory regime, but be less likely to reduce supply.

93 The net benefit of the current Heat Smart programme is highly favourable. Under the preferred scenario, (additionally assumption of 85%, 4% discount rate) it was estimated the programme had a net benefit of $951 million dollars, and a highly favourable benefit cost ratio of 3.9:1, see “*Evaluation of Warm Up New Zealand: Heat Smart*”, He Kainga Oranga, Victoria University, Motu Economic, Public Policy Research and Covec, 2011.

Recommendations

94 It is recommended that you:

1. **note** that as employment growth thus productivity are central to reducing child poverty the AEG consult with the New Zealand Productivity Commission (NZPC) on how higher productivity is best sustained over time;
2. **note** that the lack of detailed costings in the AEG report mean it is difficult to provide robust feedback on the specific recommendations as there is no or little material on affordability and the policy and fiscal trade-offs involved;
3. **note** that in general and subject to affordability we support effective marginal tax rate reductions for those on low incomes as they improve the incentives to search for work and introduce positive real income increases;
4. **note** that a focus on relative poverty has strengths and weaknesses, but the available (and limited) research on dynamic income mobility leads us to focus on policy that emphasis’s mobility via employment in the first instance and specifically target deprivation and persistent low income;
5. **note** that the AEG report doesn’t comprehensively consider if we currently have the right balance and weighting for the following suite of Govt. regulated and funded interventions:

* Family planning;
* Antenatal classes;
* Pre-birth and post-birth care;
* Well Child/Tamariki Ora;
* Whānau Ora;
* Family Start;
* Free health care for under 6’s;
* Pre-school subsidies;
* Benefit transfers;
* Paid parental leave;
* Working for Families; and
* Child care subsidies.

1. **note** that measures to increase family income will be most effective in improving child outcomes if they are targeted to the poorest families, very early in the life of the child. The rates of return are highest when interventions focus on the early years because competence builds competence and because society has the longest time to recoup the investment. It would be useful for the AEG to consider this in much greater detail as the services and transfers noted in (e) above represent the front line of protection’s against child poverty *per se* and vulnerability generally;
2. **note** there is value in reviewing the current mix of family planning advice/support provided for at risks teenagers, as access to and the price of contraception does not seem to be a significant factor;
3. **note** that any move from targeted to universal transfers needs to be assessed against the following principles, which to date has not been untaken and/or made public:

* the nature of the problem to address;
* efficiency including the deadweight cost i.e. funding services that may be provided anyway;
* fiscal sustainability of the intervention;
* spread of the harm in the population;
* ability to discover and prevent any material harm at low cost;
* suitability of proxies to identify those harmed; and
* administration costs involved.

1. **note** that subject to costings being publicly available, we support further work in the following areas discussed in the report:

* the integration of a package of support for sole parents has merit subject to costing: access to childcare; early childhood education subsidies; better marginal tax rates combined with tight work requirements for those with young children; additional universal health checks; enhanced access to contraception; with a dedicated support person/mentor to assist in networking, engagement with fathers and facilitating access to appropriate education/training and/or employment; and the proposed advanced payment model.
* a principle in statue which says interest commitments entered into with high risk lenders have to be payable on the current income of the individual family taking out the loan adjusted for risk;
* while the data available does not suggest that there is a widespread or systemic problem of school children not having breakfast in New Zealand there is a good policy case for considering higher funding for low decile early childhood education providers and/or primary schools given the strong linkage between achievement and socio-economic status in New Zealand, and the comparatively low level of targeting currently compared to most OECD countries; and
* any additional funding should be targeted through either the equity or decile funding of early childhood education providers or primary schools and more intensive care provided through the NGO sector via the social worker in low decile schools type initiatives. As children’s brains are developing the most from 0 to 3 years, this would suggest, *prima facie*, that new funding should be targeted, in the first instance, at children in early childhood education in low decile areas;
* a full cost/benefit analysis of the warrant of fitness approach for rental accommodation by appropriate Government agencies which also assesses the impact of the sequencing of any proposed changes. The analysis should consider the degree transience impacts on healthy attachment formation in young children;
* we strongly believe there is also considerable value in faith-based and other suppliers of rental accommodation for those on very low incomes to merge, create greater economies of scale with a strong brand presence to drive higher voluntarily standards and disclosure to differentiate themselves from lower quality suppliers. Government could assist in taking both a leadership role and lowering the sunk costs of this type of approach;
* a voluntary approach along the lines of an extended insulation scheme e.g. low-interest loans to a specified group of landlords to bring their houses up to a specified standard, targeting particular disadvantaged neighbourhoods.  It could cover repairs or work to address specific issues e.g. ventilation, insulation, heating, stopping drafts etc.  This would have a lower-cost than a mandatory regime, but be less likely to disrupt supply; and
* setting up a comprehensive evaluation programme on a longitudinal basis which identifies what mix of interventions works best to minimise child poverty and builds resilience to vulnerability over time.

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