

Reducing Child Poverty – Lessons from other countries

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Questions to ponder

1. Some developed countries, especially those in Scandinavia, have achieved and sustained relatively low rates of income-based child poverty and material hardship over many decades
2. Some developed countries have reduced their child poverty rates significantly (but not always sustainably)

Questions

1. How have they achieved these outcomes?
2. Can NZ match their performance? If so, how?

OECD child poverty rates

Some key facts:

1. Child poverty rates – based on widely used income-based thresholds and material hardship thresholds – vary across the OECD and have done for many decades
2. Child poverty rates vary over time within individual countries
3. The rates of poverty vary across age groups – child poverty rates are typically higher than for the elderly
4. See EU deprivation rates – 9 item index, 2007

Deprivation Rates: 3+ enforced lacks, using 9 item EU index (%), 2007

	Children 0-17	Aged 65+	Total Population
New Zealand	18	3	13
UK	15	5	10
Ireland	14	4	11
Germany	13	7	13
Sweden	7	3	6
Netherlands	6	3	6
Spain	9	11	11
Italy	18	14	14
Czech	20	17	20

Child Poverty Reduction Targets

	Most recent poverty rate 2016	Long-term targets 10 years (2028)	Intermediate targets 2020/21	Best in OECD for children
BHC 50% of median, moving line	15%	5%	6 percentage points lower	3-5% Denmark Finland
AHC, 50% of median, fixed line	20%	10%	4 percentage points lower	?
Material hardship, standard rate	13-15%	7%	3 percentage points lower	3-5% EU 13, 2015 Sweden, Norway, Finland, Switzerland
Poverty persistence	?	Yet to be determined	Yet to be determined	?

Explaining the differences

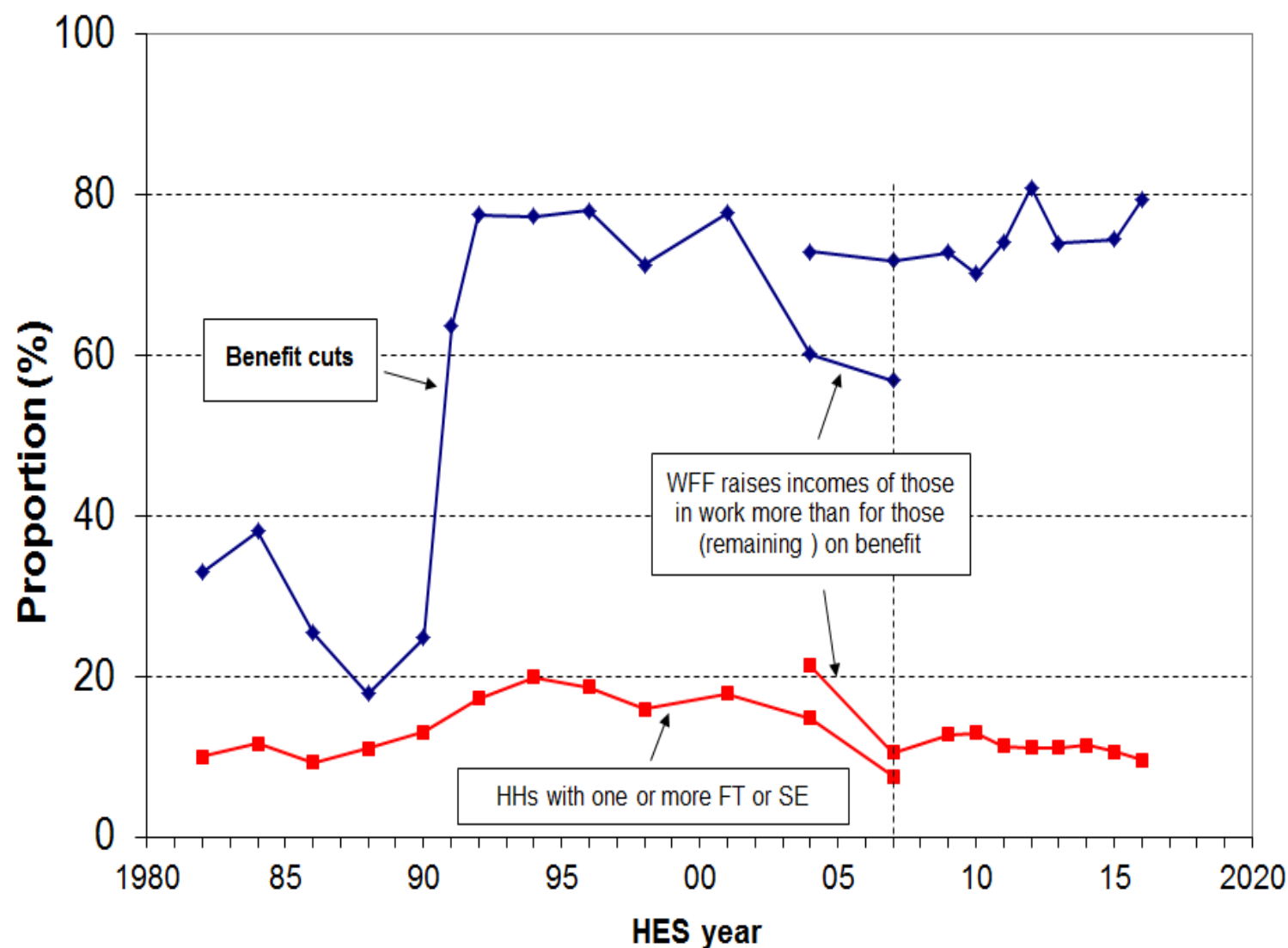
1. Overall living standards (GDP per capita) influence material hardship rates. Wealthier OECD countries tend to have lower rates of child material hardship than the poorer OECD countries; NZ's GDP per capita is somewhat below the OECD average; it is about half that of Norway
2. Besides GDP per capita, the main drivers of child poverty/hardship rates are policy related and cultural/behavioural (e.g. labour market participation rates, family structure/ functioning, mental health and addiction issues, etc.)
3. Specific policy institutions affect child income poverty/hardship rates:
 - The tax-welfare system
 - The design and generosity of family assistance programmes
 - Social insurance v tax-funded benefits, and the generosity of assistance
 - Housing costs and policies – including the scale of social housing
 - Health care funding
 - Child care funding – and sole parent participation in labour market
 - Education funding, including school meals
 - Child support arrangements, etc.

NZ's welfare state - problems

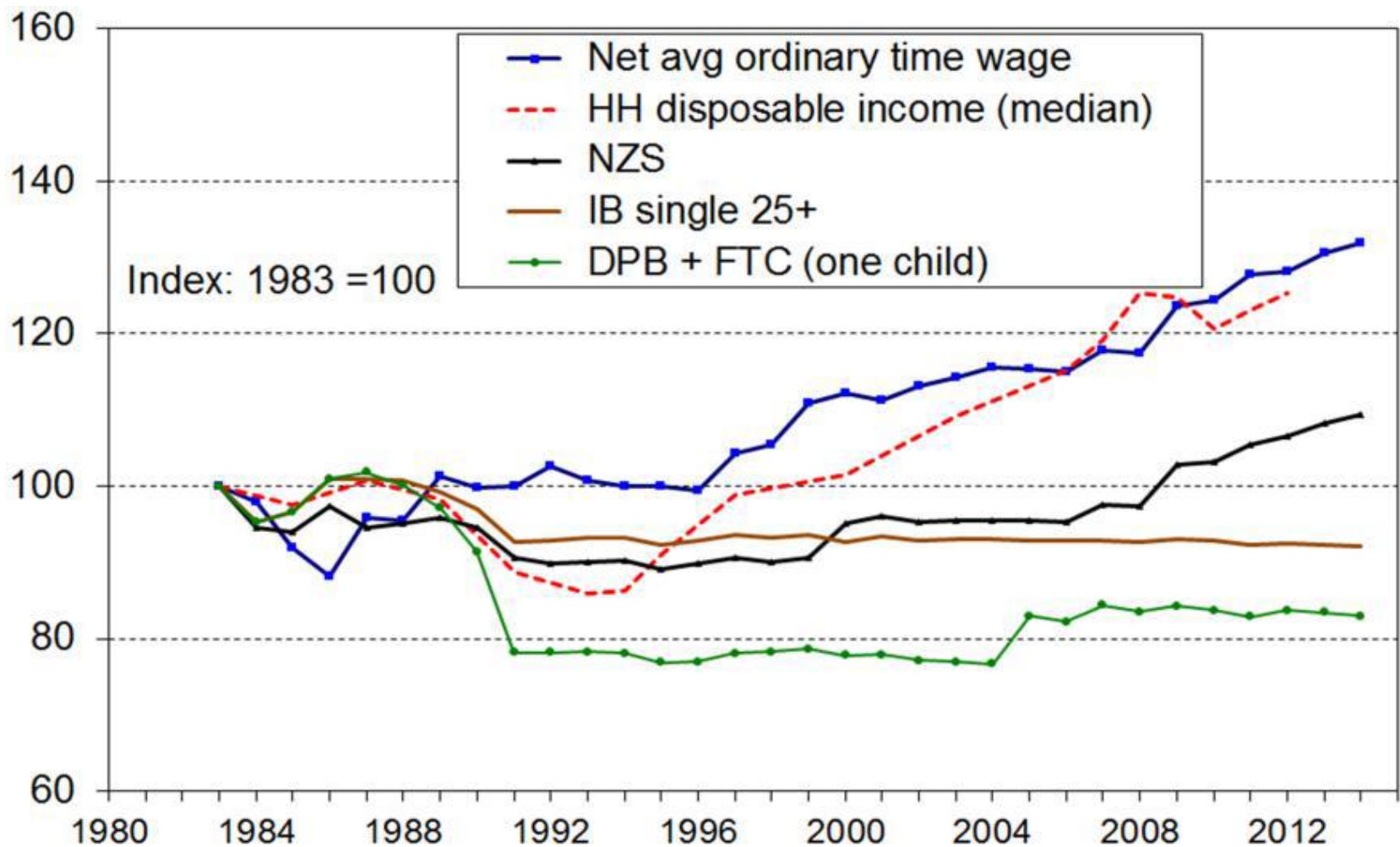
1. Tax-funded benefit system – not generous, tightly targeted
2. Core welfare benefits indexed to prices but not wages
3. Indexation of family assistance (WFF) partial and ad hoc
4. Small social housing sector (6% of total stock); many low quality private rentals; falling home ownership rates
5. Accommodation Supplement is not indexed
6. Primary health care is not fully subsidized
7. Child care costs are not fully subsidized
8. There is no comprehensive food-in-schools programme
9. The child support system discourages contributions from non-custodial parents, with beneficiaries facing 100% effective marginal tax rate
10. Electricity tariffs have increased by at least 70% in real terms for residential consumers since the early 1990s
11. Overall financial assistance to families dependent on welfare benefits falls well short of most income-based poverty thresholds, especially AHC (see recent analysis by Susan St John and Yun So)

Poverty rates for children in 'workless' and 'working' households

(After housing costs, 60%, fixed line, 1998 and 2007) (Perry, 2017)

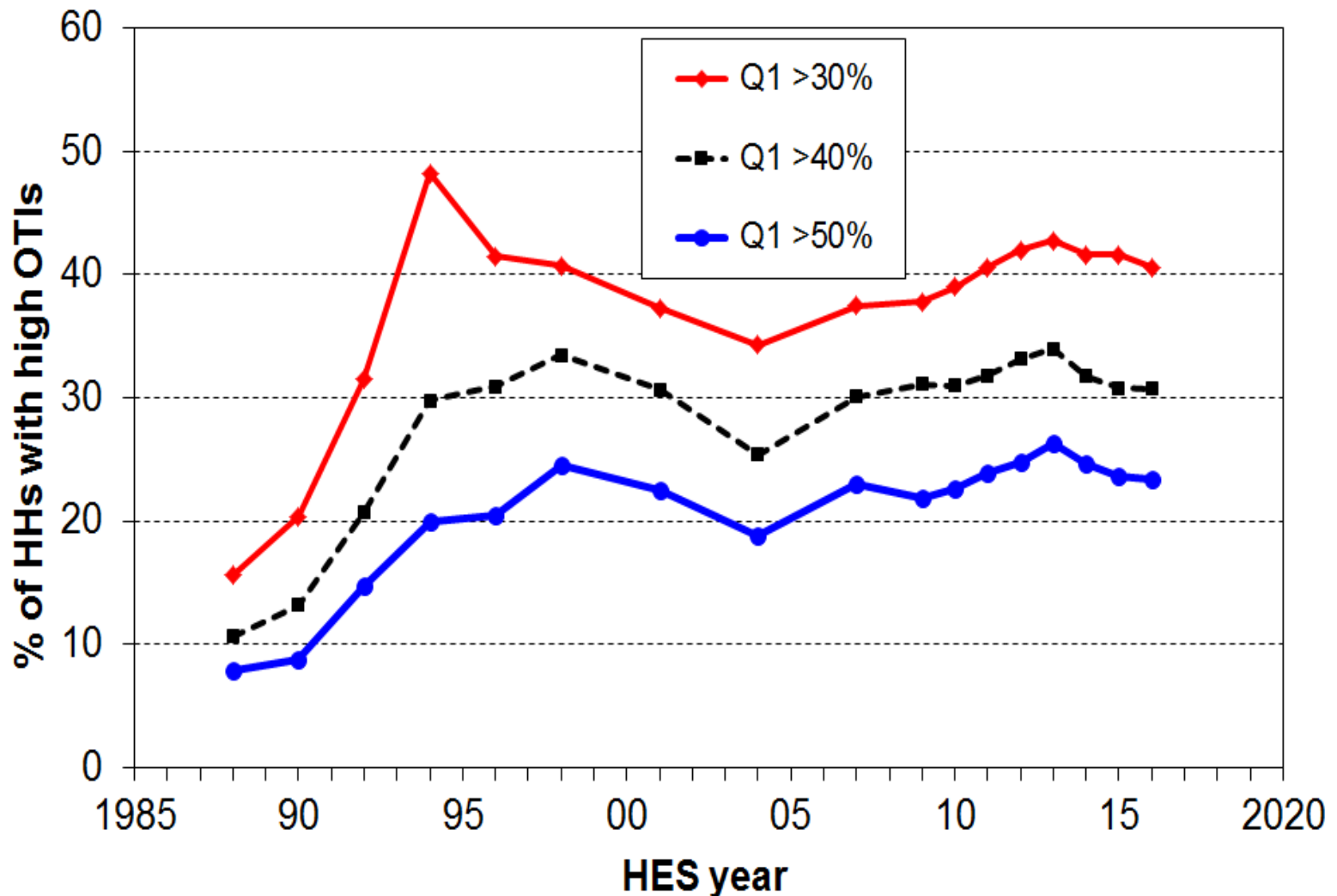


Relativities between main benefit levels, NZ Superannuation, average wage and median household income



Proportion of Q1 households with housing cost outgoings-to-income greater than 30%, 40% and 50%

Perry, 2017



The Scandinavian model

Low child poverty/hardship rates are largely due to their specific policy institutions:

- social insurance for unemployment and sickness, linked to prices and wages via earnings-related compensation
 - relatively generous family assistance programmes, usually with a mix of universal and targeted elements
 - housing policies – a significant social housing sector with modest rentals and long-term private sector rentals
 - high levels of employment among sole parents
 - heavily subsidized child care
 - fully-funded health care, including primary health care
 - free school lunches in most, but not all, Scandinavian countries
 - more flexible child support arrangements than NZ
1. Policy framework underpinned by broad cross-party consensus
 2. Main policy institutions politically difficult to change – social insurance involves legal entitlements

Could NZ replicate the Scandinavia model?

Answer: probably not

1. Moving to a social insurance model would be political and fiscally complex and costly, and time consuming
2. A doubling of the social housing stock would cost \$20-30 billion, etc.

NZ must forge its own path, modifying existing policy institutions and instruments over an extended time period, drawing on overseas lessons where appropriate. This will require:

1. A broad, enduring cross-party commitment to the goal of low child poverty rates
2. Significant and sustained additional public expenditure, applied cost-effectively
3. Substantial policy reforms in many policy domains
4. Changes in cultural norms and practices, including family functioning
5. Support from civil society, social service providers, community groups, etc.
6. Political leadership and realism

A reform agenda – in brief

1. Review and redesign the welfare benefit system and WFF to ensure income adequacy and reduced hardship
2. A principled system of indexation for all forms of social assistance to maintain relative and real living standards
3. Transformation of the housing market to reduce relative costs – massive public and private investment in affordable, quality housing over several decades
4. Significant changes to many other policy levers – child support, primary health care, child care, food in schools, etc.

Is this feasible? I hope so ...

But the fiscal and political hurdles are large ...

Thank you.

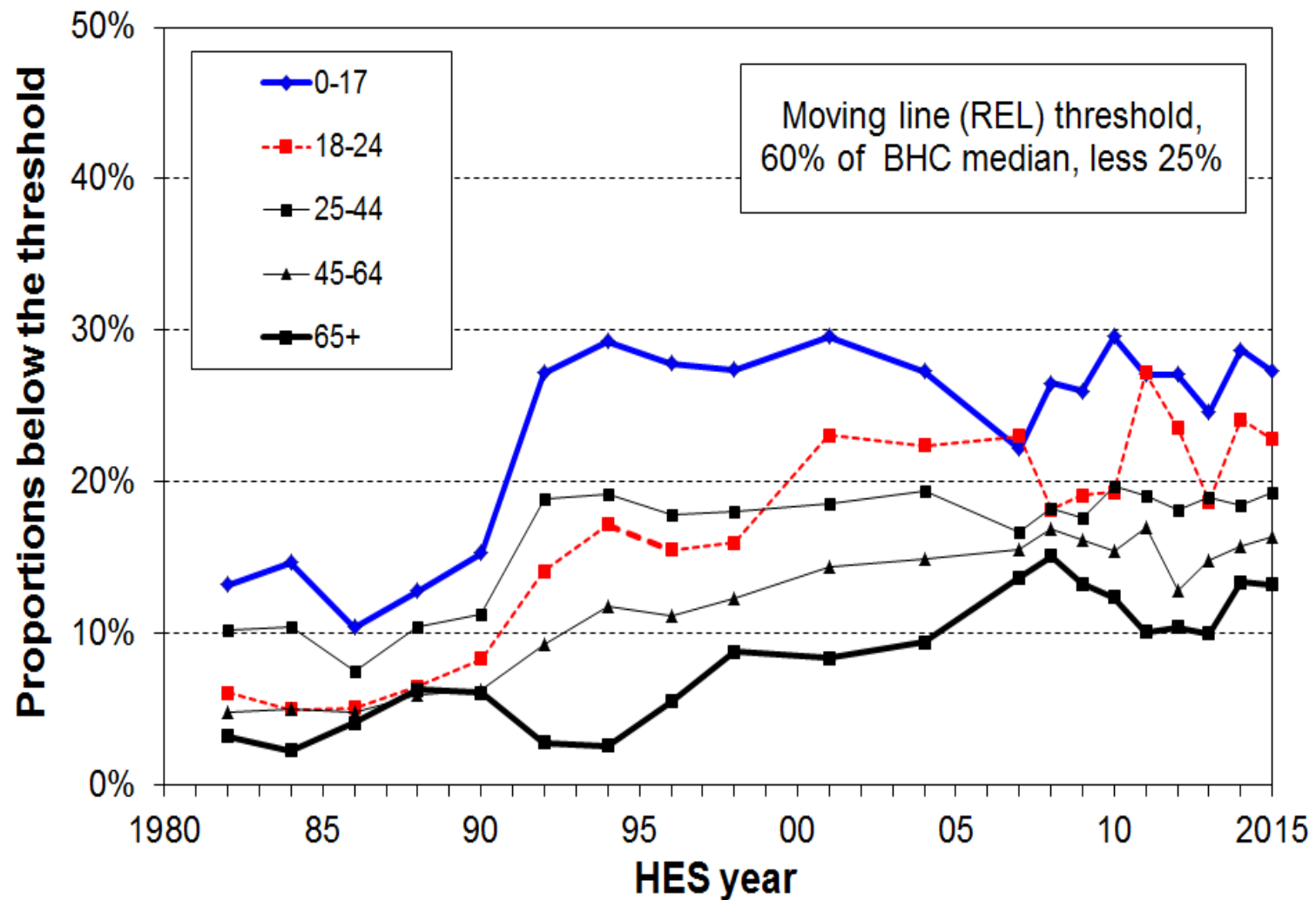
Child poverty in New Zealand

(i.e. the number of children in households with incomes below the selected thresholds, Perry, 2017)

	BHC		AHC		
HES year	BHC 'moving line' 50%	BHC 'moving line' 60%	AHC 'moving line' 50%	AHC 'moving line' 60%	AHC 'fixed line' 60% (07 ref)
2001	120,000	250,000	215,000	310,000	380,000
2004	150,000	265,000	200,000	285,000	320,000
2007	135,000	210,000	175,000	240,000	240,000
2009	130,000	225,000	210,000	285,000	265,000
2010	135,000	240,000	210,000	295,000	265,000
2011	145,000	245,000	210,000	305,000	270,000
2012	135,000	230,000	210,000	285,000	260,000
2013	125,000	220,000	205,000	275,000	245,000
2014	135,000	230,000	210,000	280,000	240,000
2015	145,000	235,000	215,000	300,000	240,000
2016	140,000	215,000	210,000	290,000	220,000

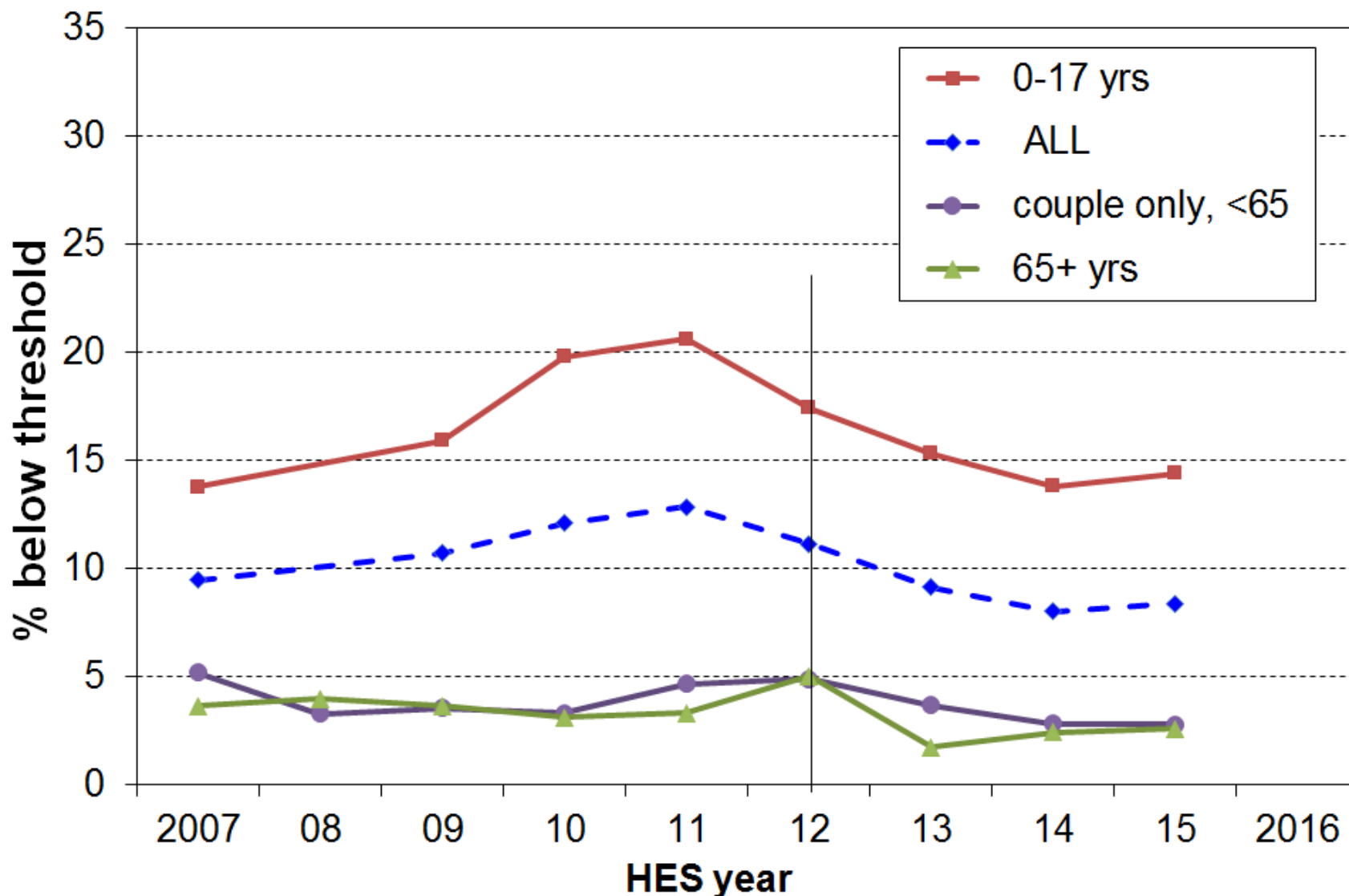
Proportion of all individuals in low-income households by age, 60% REL threshold (AHC)

(Perry 2016)



Trends in material hardship (deprivation), 2007-15

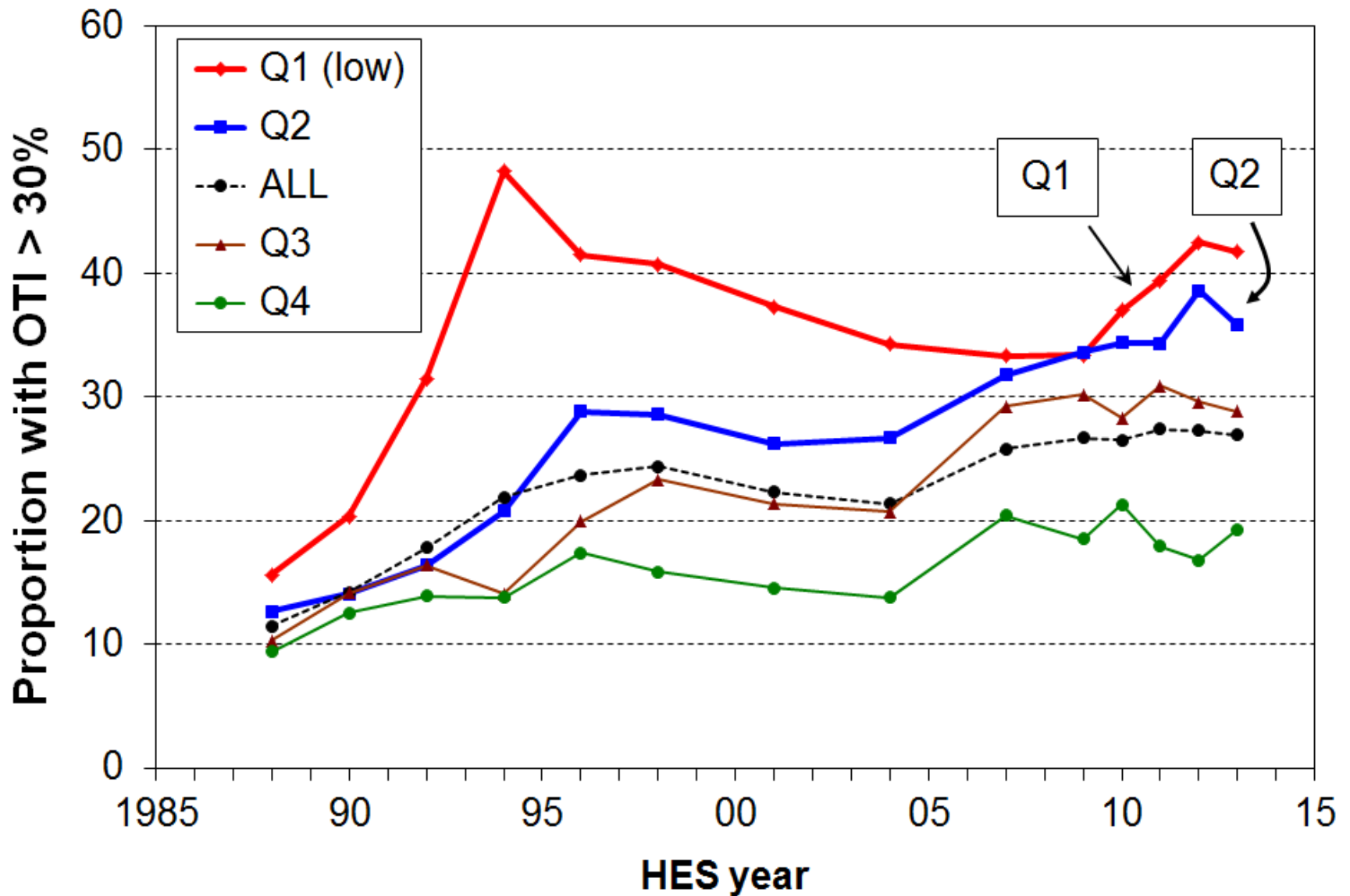
(Perry, 2016)



Note: the analysis uses a hardship threshold that is equivalent in 2012 to the EU 'standard' measure. Pre-2012 = ELSI; post-2012 = MWI

Proportion of households with housing cost outgoing-to income ratios greater than 30%, by BHC income quintile

Perry, 2014



References

References

1. Jess Berentson-Shaw and Gareth Morgan, *Pennies from Heaven: Why Cash Works Best to Ensure All Children Thrive*, Wellington, The Public Interest, 2017
2. Sarah Bierre et al., (eds) *Homes People Can Afford: How to Improve Housing in New Zealand*, Wellington, Steele Roberts Aotearoa, 2013.
3. Jonathan Boston and Simon Chapple, *Child Poverty in New Zealand*, Wellington, Bridget Williams Books, 2014
4. Expert Advisory Group, *Solutions to Child Poverty in New Zealand: Evidence for Action*, December 2012
5. New Zealand Productivity Commission, *Housing Affordability Inquiry*, Wellington, 2012.
6. Bryan Perry, *Household Incomes in New Zealand: Trends in indicators of inequality and hardship, 1982 to 2016*, Wellington, Ministry of Social Development, 2017 (and previous reports)
7. Susan St John and Yun So, 'An Analysis of the effectiveness of policies for children in the worst poverty in 2018', CPAG.
8. *Child Poverty Reduction Bill* (2018)