

Submission

By

**THE
NEW ZEALAND
INITIATIVE**

to the Social Services and Community select Committee

on the

Child Poverty Reduction Bill

4 April 2018

Prepared by:
Dr Bryce Wilkinson
Senior Fellow
The New Zealand Initiative
PO Box 10147
Wellington 6143
bryce.wilkinson@nzinitiative.org.nz

1 SUMMARY

- 1.1 This submission on the Child Poverty Reduction Bill (**the Bill**) is made by The New Zealand Initiative, a think tank supported primarily by chief executives of major New Zealand businesses. In combination, our members' revenues account for one-third of New Zealand's economy and they employ over 150,000 people in New Zealand. The Initiative undertakes research that contributes to developing sound public policies in New Zealand which help create a competitive, open and dynamic economy and a free, prosperous, fair, and cohesive society.
- 1.2 We strongly support a continuing government focus on addressing the deep drivers of misery and disadvantage in New Zealand. Our November 2017 research report, *Welfare, Work and Well-being: From Benefits to Better Lives*, highlighted the problem of a self-perpetuating cycle of misery and benefit dependency.
- 1.3 We note that Part 2 of the Bill focuses on achieving reductions in indicators relating to relatively low post-benefit incomes and to material hardship, rather than of well-being. Financial measures such as GDP per capita or household incomes are not well-being measures, although low reported incomes are suggestive.
- 1.4 An income focus is not a well-being focus. Indicators of low income and hardship are silent on causes. Policies to increase post-benefit incomes are not a one-size-fits-all remedy for every individual predicament. For example, they may be unsatisfactory responses to problems of child neglect and abuse, mental illness, drug or gambling addiction, poor budgeting or inability to get paid work. Fulfilling paid work can be much better for self-esteem and well-being than being unemployed, but wanting work.
- 1.5 Part 3 of the Bill has a well-being focus but it neither defines well-being nor proposes indicators for it. This absence creates a risk that indicators of well-being will take second place to the central role given to the Bill's materialistic indicators and targets. We see a need for greater safeguards in the Bill to ensure that policy implementation focuses on improving well-being sustainably.
- 1.6 Two recommendations follow from this assessment:
- A. The Bill's targets and measures should be expanded to include well-being indicators, and
 - B. Mechanisms should be considered for ensuring an independent expert assessment of trends in the factors driving the incidence of material hardship.

2 BACKGROUND: FROM BENEFITS TO BETTER LIVES

- 2.1 Our November 2017 research report, *Welfare, Work and Well-being: From Benefits to Better Lives*¹, highlighted the problem of a self-perpetuating cycle of misery and benefit dependency. Early entry to the benefits system foreshadows long-term benefit dependence. It also indicates likely child abuse, neglect and youth justice issues. Around 15% of children come to the attention of the authorities for abuse or neglect concerns by age 18.

¹ Earlier related publications by the New Zealand Initiative include: *Investing for Success: Social Impact Bonds and the Future of Public Services (2015)*, *Poorly Understood: The State of Poverty in New Zealand (2016)*, and *The Inequality Paradox: Why Inequality Matters Even Though it has Barely Changed (2016)*.

- 2.2 Teenage beneficiaries tend to become long-term beneficiaries. At 30 June 2017, those with this history accounted for 75% of the future fiscal costs of working age benefits. That represents 75% of \$76 billion. This fiscal burden measure does not include the lifetime costs to themselves and others of poor education, poor parenting and/or budgeting skills, substance abuse, crime, illness and neglect.
- 2.3 Our report stressed the need for effective action across a broad range of fronts. Benefit policies need mates. Economic growth encourages job creation. Education, health, labour market and housing policies should be helping rather than hindering those being most left behind.
- 2.4 More narrowly, government agencies need to get better at contracting for outcomes. They should use integrated datasets to better assess where help is most needed and what works. They should seek to empower those they are helping and tap into local knowledge, expertise and innovation. Post-intervention well-being needs to be measured. The focus should be on achieving sustained improvements in it. That is why we recommended continuing with the fiscal liability measure. Currently, it is the only one that forces independent experts to assess the sustainability of movements off welfare.

3 THE INDICATORS IN PART 2 OF THE BILL

The indicators have a materialistic focus rather than a well-being focus

- 3.1 Part 2 of the Bill seeks to focus future governments on the number of children above or below four primary and six supplementary measures of relatively low income or hardship. The focus is primarily on income measures (six out of the ten with another two being hybrid measures).
- 3.2 All ten measures are materialistic, none measure well-being. This lack is a concern:
- First, Bryan Perry's reports for the Ministry of Social Development have long established that income is not an accurate indicator of material hardship. Giving more money to alcoholics, spendthrifts or gamblers may get people over an income poverty measure, but much less so for a material hardship measure.
 - Second, material hardship does not measure how loving and supportive or neglectful and abusive is the child's home. It does not measure the state of mind. For example, a focus on material living standards may neglect the significance for well-being of their source. As our November 2017 report indicated, fulfilling paid work can be much better for self-esteem and well-being than being unemployed, but wanting work.

A well-being focus would be broader

- 3.3 This concern about a materialistic focus is significant because Part 3 of the Bill obliges governments to have a strategy "for improving the well-being of children" and ensuring that "children's agencies work together to improve the well-being of particular groups of children".² However, the Bill contains no definition of well-being and shows no interest in its measurement.³
- 3.4 The previous government's view was that what government agencies thought was best for enhancing someone's well-being was not necessarily the view of the individual, or of those closest to knowing the individual's circumstances. Might more or less paid work for an adult

² The Bill's explanatory note explains that Part 3 is intended to become a Children's Amendment Bill.

³ Neither does the existing Vulnerable Children's Act 2014.

carer be a better option than shifting a troubled kid into possibly abusive state or foster care. Such judgment calls needed to be informed by local knowledge and good statistics. A greater focus on finding out what interventions worked on a sustained basis was needed, looking inside and outside agency silos.

The materialistic focus could detract from a well-being focus

- 3.5 What is measured attracts attention. The risk is that the intended ongoing media and policy focus on materialistic indicators in part 2 will be at the expense of a well-being focus. Government agencies could get the message from their ministers that getting a household over an arbitrary material poverty measure by a dollar or two a week before the next general election is more important than helping them overcome, say, its mental illness, drug addiction, disability or absent spouse problem.

What is the problem for which part 2 is the remedy?

- 3.6 With some exceptions, material hardship shows lack of income, financial wealth and family support. Many combinations of circumstances can be the cause. They include aversion to materialism, lack of work despite willingness to work, mental illness and other sources of mental incapacity⁴, physical illness or disability, problems of gambling, drug addiction, poor budgeting, bullying and abuse, lack of work skills, family instability, brain damage and family structure (particularly the absence of a working father). Some aspects can be inter-generationally transmitted.
- 3.7 Government policies towards productivity growth, education, health, housing, transport, jobs, welfare, youth crime, (il)legality of drugs, family structure and much else affect the factors underlying material hardship. Our report, and others, have emphasised the impact of housing policies.
- 3.8 The remedy for unwanted material hardship in particular cases will be that which best addresses the individual's predicaments. Giving cash to alcoholics or gamblers is likely to offer taxpayers and vulnerable children particularly poor value-for-money. Existing landlords will largely capture the benefit of rent subsidies when other policies are working to raise the costs and risks of supplying additional rental accommodation.
- 3.9 An effective welfare policy will keep government agencies focused on achieving the greatest enduring well-being benefits from given fiscal resources. The proposed indicators lack that focus.
- 3.10 While the Bill requires government agencies to provide 10-year targets for the proportion of people below its various measures, it provides no structure for ensuring those targets are realistic. This absence contrasts with the current actuarially-based fiscal liability assessments. Here independent actuaries assess what outcomes they think are realistic given existing trends and policies.

⁴ The OECD's 2015 report, *Fit Mind, Fit Job: From Evidence to Practice in Mental Health and Work*, reports that mental ill-health is the cause of 33%-50% of all long-term sickness and disability amongst the working age populations of member countries. Around 20% of the working-age population is suffering from it at any given moment and one person in two will be affected during their lifetime.

4. CONCLUSIONS AND RECOMMENDATIONS

- 4.1 The Initiative applauds the government's recognition of the importance of reducing the prevalence of material hardship and misery amidst a deeply disturbing proportion of New Zealanders.
- 4.2 The pressing need is to ensure that policy measures respond to the deep causes of hardship and misery rather than to symptoms of people's predicaments. Taxpayer money is scarce. Under the proposed indicators, it might be used to help easier rather than harder cases. The misery may be greater amongst the latter.
- 4.3 We do not see the measures in the Bill as inevitably having such adverse effects. But we see a risk they will in practice as matters stand. The concern is less about setting arbitrary targets and more about the quality of the measures taken in pursuing those targets.
- 4.4 We see two ways to reduce this risk:
 - A. The targets and measures could be expanded to include well-being measures. For example, the government statistician could be required to collect and report on 'before and after' surveyed well-being measures for those the government is most concerned to help.⁵
 - B. The Bill could include mechanisms that provide for independent expert assessments of trends in the factors driving the incidence of material hardship. Such assessments should guard against unrealistically optimistic long-term projections by a future incumbent government. One mechanism might require an independent expert assessment to be made of future trends in working-age welfare dependency, under the incumbent government's policies.⁶

⁵ The responses to the questions in Statistics New Zealand's regular General Social Survey illustrate the possibilities. New Zealanders rank highly in international comparisons for overall life satisfaction, but the focus for alleviating hardship should be on improving outcomes for those who are struggling the most. In our view it is important for policy that government monitors the well-being effects of those moving from welfare to work, or vice versa. Our report on working age welfare cites evidence that being in a worthwhile job is much better for self-esteem than being on welfare.

⁶ That assessment could stop short of providing a fiscal liability measure, but of course it should inform the Treasury's long-term fiscal projections, and thereby a responsible minister of finance's fiscal deliberations.