

Welfare Support of Children

by Keith Rankin, 15 March 2007

New Zealand has a number of welfare and tax provisions that are ostensibly in place to benefit children. However, they are driven by incompatible philosophies; indeed philosophies which have issues other than the welfare of children in mind.

The three provisions that I wish to comment on are the In Work Tax Credit (IWTC: called the "In Work Payment" when introduced in April 2006), Child Support, and the Domestic Purposes Benefit (DPB).

A well functioning tax-benefit system works as an "automatic stabiliser" of a nation's economy. These provisions however, as well as not providing a general means to ensure that children are provided for, also act as de-stabilisers to the wider economy. New Zealand has not experienced a recession since 1998, and no really large period of unemployment since the early 1990s. But economic crises can strike when we are least prepared for them.

The IWTC is essentially a carrot that is designed to get parents off benefits and into the paid workforce. In that capacity it also acts as a stick to prevent parents from leaving stressful jobs or reducing their hours of work. Thus the IWTC is very much a form of social engineering. The government wants to achieve higher rates of economic growth through increased labour supply rather than through increased productivity.

What will happen, though, if an economic downturn substantially increases involuntary unemployment? The grief arising from lost wages and having to go onto a benefit will then be compounded by the immediate loss of the \$60+ per week IWTC. The grief will be additionally borne by retailers and other businesses, as well as by the families themselves.

One response to rising unemployment will be for affected parents to separate, with custodial parents (let's say "mothers") seeking to work 20 hours per week (just enough to get the IWTC back) while also receiving minimum Child Support payments from the unemployed estranged fathers.

Let's now bring Child Support into the equation. The underlying philosophy of Child Support is that parents (let's say "fathers") should be deterred from abandoning children who they no longer wish to provide for. In reality, of course, this kind of "deadbeat dad" represents only a small proportion of liable parents, all of whom have no choice but to pay substantial sums of money to Inland Revenue in addition to their normal taxes.

Child Support is a misnomer, because the children who most need this money barely receive any of it. A substantial majority of the funds actually collected by Inland Revenue's Child Support Agency is withheld by the IRD or is passed on to middle-class parents (including parents who have re-partnered) who are not poor.

The government only passes the money on to custodial parents if they are not on benefits such as the DPB. Solo mums who choose not to go on the DPB in order to receive Child Support (and to become eligible for IWTC payments) will not be able to rely on a regular flow of Child Support money because the fathers' circumstances may often change.

Fathers paying Child Support to impoverished children will typically be poor themselves (especially if the economy is in recession), so will not contribute much. Even then, Child Support

money is not passed on by Inland Revenue until it is paid by the fathers, so cannot form a part of Mum's regular budget. Much Child Support money is currently overdue.

A final point that I wish to make in the short space available is that solo-mums are treated as beneficiaries even if the estranged father earns enough to pay, through Child Support, her DPB in full.

Let's take a case where a solo-mum with two children earns less than \$80 per week, and is receiving \$13,000 per year in benefit payments. If the father paying Child Support earns \$67,000, his payments are the same as her benefit. The "in-work" father, not the state, is supporting her. Yet the government will still refuse to pay the IWTC to her, because she's not "in work".

At the very least, if we are going to persevere with an "In Work" Tax Credit, then all separated families where the providing parents are working at least 30 hours per week should receive that payment. Child Support ensures that the absent parent is paying at least a part of the benefit that the custodial parent may be receiving.

An excellent strategy for a beneficiary solo mum would be to get a new partner, quickly. Any man or woman will do so long as they are working enough hours to qualify the household for the IWTC. Now the new partner (who may well be much more violent than the estranged father of the children) will bring his own wages, the IWTC, and the father's Child Support all into the family budget. And if this new partner later leaves, Mum will lose, in one hit, all three supplements to her family budget.

There must be a better way. Indeed there is a better way. Watch this space.

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Keith Rankin teaches economics and statistics at the Unitec Business School. His article "An Income Tax Proposal for New Zealand" will be published at the end of this month by the New Zealand Journal of Taxation Law and Policy. He will be attending the "Where to for Welfare?" symposium to be held at the University of Auckland on 21 March.