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**THE CASE FOR REINTRODUCING UNIVERSAL
CHILD ALLOWANCE IN 21ST CENTURY
NEW ZEALAND**

**A thesis presented in partial fulfilment of
the requirements for the degree of
Master of Arts
in
Social Policy
at
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ABSTRACT

The purpose of this thesis is to contribute to contemporary debates on the most suitable family financial assistance policies for 21st century New Zealand. Based on documentary research, using books, articles, theses and official sources, this thesis presents a case in favour of reintroducing a universal child allowance within the mix of financial support to New Zealand children. The reason for a focus on this benefit is that it would arguably help meet a number of vitally important policy goals, while contributing to the wellbeing of families raising children.

Current challenges for social policy in most OECD countries include low birth rates and projected long-term labour shortages. Policies to encourage higher labour force participation rates by mothers without further falls in fertility are recommended by the OECD and have already begun in countries such as New Zealand. In addition, the United Nations Millennium Goals include the eradication of poverty and the empowerment of women by 2015. One way to help New Zealand meet these goals would be to reintroduce a universal child allowance.

This thesis argues that reintroducing a universal child allowance payable to the primary carer, commonly the mother, would be of assistance in reducing child and maternal poverty in New Zealand, including the hidden poverty that exists when aggregate household income is adequate but not fairly shared. Providing a reliable and regular income, would also contribute to the empowerment of women. It would remove the poverty traps that exist because of means-tested benefits, and which create disincentives to longer hours of employment. It would also reduce current financial difficulties that are causing couples to delay having children.

This thesis outlines the New Zealand history of universal family benefit from its introduction until its abolition in 1991, and describes some of its effects and its popularity. The thesis examines the effectiveness of universal child benefits in countries such as Britain where they are still an integral part of the welfare system. It also looks in detail at a range of ways in which universal child allowance could help New Zealand meet some of the major policy challenges of the 21st century.

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CHAPTER 1

INTRODUCTION AND METHODOLOGY

1.1 INTRODUCTION

The quotation below is from Marilyn McLachlan, a young New Zealand mother with four small children who one afternoon, without forethought, penned a letter to the Prime Minister, Helen Clark. Feeling as if she had been pushed to the limit emotionally, physically and financially, McLachlan questioned why it was increasingly difficult to raise a family in New Zealand. A lack of support for mothers, increasing medical costs, student loan debt and high living expenses were just some of the issues highlighted.

Is government-funded financial assistance for families bad for the future of New Zealand? Will it diminish our lives and make us not want to reach our potential? Will it make us state-dependent? Our own parents were given a Universal Family Benefit. Would all parents who received this benefit, before it was cut in 1991 consider themselves welfare-dependent? I doubt it. Instead of being insulted by such an approach, I say that we can view state-assistance in a much more positive light: 'Hey, we realise that you are raising kids and this means that a lot of your money goes to them and that kids are expensive. We realise that unless you had children, New Zealand society would become obsolete. So, family, thanks for doing a great job. We realise that your income is not your own, that you support two, three, four or more people on that. We realise that you are making a contribution to New Zealand. So, here is our acknowledgement of that' (McLachlan, 2005:241-242).

McLachlan's attitude epitomises that of many New Zealand parents. Eager to be effective and provide their children with opportunities so they develop into healthy and happy children, the reality for many modern parents is that of financial stress and living on tight budgets.

This thesis presents the case for reintroducing a universal child allowance for New Zealand families with dependent children. It is written within the context of the sorts of issues affecting New Zealand's children, their parents and society which McLachlan refers to. These include persistent child and maternal poverty, the substantial costs of raising children, a falling birth rate and efforts by government to encourage mothers into paid work.

Increasing numbers of children living in lone parent families, children residing in families with unemployed parents, low levels of relative pay for unskilled workers and reduced benefit levels since 1991 have resulted in chronic poverty for some families and occasional poverty for others. At the same time there is an appreciation that low income impacts on a child's quality of life

including health status, access to education and recreational activities (Brooks Gunn & Duncan, 1997; Mayer, 2002). It is, therefore, essential that families have adequate income to provide for their children.

The wellbeing of children depends on the welfare of mothers. There is evidence, however, that many New Zealand mothers live in poverty. The rapid growth in female-headed households and the way in which liberal welfare regimes discriminate against such households have contributed to the increase in mothers' poverty. This is not only in mother-headed households as there is evidence that inequalities exist in the distribution of household income leading to hidden poverty (Fleming & Easting, 1994).

Mothers tend to be the primary carers of children and are responsible for spending on children (Phipps & Burton, 1998). When mothers are living in poverty their ability to spend is compromised, and the resulting stresses on their mental and physical health make it very difficult to be an effective parent (Goode, Callender & Lister, 1998). Additional income for children paid to the primary carer, commonly mothers, can ease the resulting pressures.

Demands on the family budget to meet the costs of feeding, clothing and housing children as well as the costs of educating and socialising today's children are substantial (Percival & Harding, 2005). However, raising children involves more than physical costs. The costs of unpaid care provided by parents, particularly mothers who leave the paid workforce or reduce their hours of paid work to care for children, are also significant (Gray & Chapman, 2001). Providing extra income contributes to the costs of raising children and compensates for earnings foregone.

As New Zealand's population ages and the proportion of retired people grow, there are concerns for shortages within the work force. The Organisation for Economic Co-operation and Development (OECD), of which New Zealand is a member country, argues that New Zealand could alleviate labour shortages with policies that encourage more mothers into paid work (OECD, 2004a). At the same time, however, because New Zealand's birth rate is below replacement level, policies encouraging paid work should not lead to further reductions in fertility. Tax/benefit policies affect people's decisions to undertake paid work by reducing the disposable income that families receive from working (Nolan, 2004). This is particularly true for means-tested benefits which can have the unintended effect of creating poverty traps. Rather than assisting people into jobs, they act as disincentives and, therefore, create barriers to paid work. In providing financial assistance to families, policies are needed that do not interfere with employment decisions.

As well as an ageing population, New Zealand's birth rate is falling with repercussions in terms of the size of the future work force to fund our social security system (Callister & Rose, 2001). Increasingly, the decision to have children is influenced by their economic cost even though most people plan to have children at some stage. In New Zealand many prospective parents are delaying having children until they can provide a financially secure environment for them (Robertson, Rogers & Pryor, 2006). Because of cuts in welfare spending, increasing student debt and less secure employment, it is now common for couples to wait longer before having children. In some cases postponement has meant that once couples are ready to have children they are no longer fertile. A financial assistance policy is needed that provides parents with a more secure environment in which to have children.

This thesis argues that universal child allowance, in combination with existing means-tested family policies, is a policy which addresses these issues. By providing additional income to parents, it provides financial relief to families living in chronic poverty and those in occasional poverty. It is also a policy that empowers women and therefore responds to mothers' poverty. Moreover, it contributes to the costs of raising children, and compensates mothers who give up paid work or reduce their hours of work to raise children. As an unconditional benefit, universal child allowance enables mothers to combine employment and raise children without disincentive to either.

1.2 CHOICE OF TOPIC

A number of factors influenced my interest in researching universal child allowance as an appropriate policy for 21st century New Zealand families. My initial interest began in 2002 during my role as convenor of the Economics Committee of New Zealand National Council of Women (NZNCW). As part of that role, I undertook a review of state financial support for New Zealand families with dependent children. My research showed that the nature and lack of financial assistance to families was a contributing factor to increased poverty levels. The research led to my presenting a remit to the 2002 NZNCW national conference calling for the reintroduction of universal family benefit to be paid to New Zealand families with dependent children. The remit was passed with an overwhelming majority.

Since 2002 my interest in the topic has continued, and has focused on the success of government policies to improve the income of families. For example, the 2004 Budget signalled significant changes to family assistance with the introduction of the Working for Families package. There was hope that at last child poverty in New Zealand would be addressed. However, while the package included a number of improvements, the emphasis on

work incentives remained. This was evidenced by the inclusion of the In-work Payment for couples who worked 30 hours or more per week and for sole parents who worked 20 hours or more per week. It was clear that the Payment was intended as a work incentive rather than a means of providing adequate income to families and relieving child poverty.

My research into how other countries have successfully reduced child poverty showed clearly that countries adopting policies where all children are treated the same have significant reductions in poverty as well as achieving other objectives. Such policies included a universal child allowance. In New Zealand tax/benefit policies continue to be means-tested, with a significant portion of child-related income supplements dependent on the work status of parents.

Given my interest in New Zealand family financial assistance policies, when the opportunity came to choose a master's thesis topic it seemed logical to pursue an area of study in which I had already gained some knowledge and was passionate about. The reintroduction of universal child allowance for all dependent New Zealand children was chosen.

1.3 DEFINITION OF TERMS

Several key terms as used in this thesis require defining. The term family or families is broadly defined and encompasses a variety of types, structures and relationships. This thesis adopts the definition of family as set out in the Families Commission Act 2003 which states that the family includes "*a group of people related by marriage, blood or adoption, an extended family, two or more persons living together as a family, and a whanau or other culturally recognised family group*" (True, 2005:15). That is, the term family encompasses de facto and de jure relationships by cohabitation and marriage, relationships between same sex and opposite sex couples, biological and adopted children, single, two parent and extended families.

This thesis is concerned with cash payments to children. Cash payments provided to families with children are referred to by a variety of names including family allowances, child allowances and child benefits (Kamerman, 1984:252; Kamerman & Kahn, 1989:582). Specifically, Vadakin (1958:1-2) defines them as "*systematic payments made to families with dependent children, whether by employers or by government, for the primary purpose of promoting the welfare of such children*".

In particular, this thesis is concerned with universal cash payments. These are defined as the allocation of benefits on the basis of criteria other than income (Kamerman & Kahn, 1987:277). Universal cash payments to dependent children are referred to by a variety of names including

universal family allowances, universal family benefit, universal child benefit and universal child allowance. All of these terms refer to a non-taxable payment made to families with dependent children funded from government revenues which is not contingent on income level, labour force attachment or family structure. While the payment can be provided as a flat-rate benefit, with a specific amount paid for each child, the amounts can also vary by age of the child, their ordinal position and the number of children within the family.

Universal child allowance is the preferred term used by this thesis, but the alternatives are also used depending on the term adopted by a particular country. For example, British policy refers to universal child benefit, while Swedish policy refers to universal family allowances. The former New Zealand equivalent was called a universal family benefit.

This thesis also refers to means-tested family benefits. These are defined as benefits which focus on a particular family group by limiting provision to those who pass a means test where incomes and assets are below a certain level (Kamerman & Kahn, 1987:277).

1.4 METHODOLOGY AND RESEARCH DESIGN

1.4.1 Approach Used

The principal method used in the thesis to obtain information was that of documentary research. This involved the use of published and unpublished documents as background information and as a source of data, ideas and supporting arguments. The selected documents included published books, journal articles, Government Working Papers, university and Government Discussion Papers, Government Research Reports, Government Briefing Notes, Government Department Annual Reports, Non-Government Organisation (NGO) Reports and published articles, Parliamentary Debates, Royal Commission Reports, Statements from the New Zealand House of Representatives, unpublished Master's thesis, newspaper articles, conference reports, and web articles.

1.4.2 Data Collection and Analysis

Search for relevant data continued throughout the duration of the thesis. The process of collecting resources began by searching the Massey University library's on-line catalogue system and bibliographic databases. This enabled lists of articles and reports containing information on family financial assistance policies in New Zealand and internationally to be obtained. Databases searched included Sociological Abstracts, Social Services Abstracts, Index

NZ (INNZ), JSTOR, Expanded Academic, Web of Science, Academic Search Elite, (IBSS) International Bibliography of the Social Sciences, EconLit and Ingenta.com. Further sources were discovered from searching the bibliographies and reference lists of sources already read and noting authors who were frequently cited.

Massey University Library Document Supply Services obtained on my behalf many technical reports, journal articles and books on the topics of universal benefits, child benefit and family financial assistance policies both from New Zealand and international sources. For example, references were obtained from the National Library of New Zealand, National Library of Australia, University of New South Wales Library, Australian Parliamentary Library and the British Library Document Supply Centre. Where possible, journal articles were obtained using the library's electronic journals.

Further information was accessed through the internet. This method was convenient for accessing Government Department websites and proved useful in obtaining working papers and published reports. As family financial support policies are a topical issue, newspapers and radio broadcasts provided commentaries on recent government reports and policies.

Personal contact was made with organisations such as the United Kingdom Child Poverty Action Group who provided several valuable publications documenting their campaign to reduce poverty in Britain. The New Zealand Child Poverty Action Group was also helpful.

Once the information was obtained, summary notes were made and organised into themes. When analysing the information certain questions became a focal point. For example, the author's background, the authenticity of arguments presented and data included, the assumptions underlying the information and data, the major themes presented and how the arguments were justified and supported.

1.5 AIMS OF THE RESEARCH

In providing a coherent and researched piece of work in which the main arguments for universal child allowance are outlined, it is hoped that the thesis will contribute to the debate on the success of family financial assistance policies in New Zealand.

1.6 OUTLINE OF THE THESIS

This thesis is organised into eleven chapters. Chapters two and three introduce the historical case for universal child allowance and cover the period 1926 to 1946. Chapter two examines the introduction of universal family benefit in New Zealand and its predecessor family allowance. The economic, social and political factors leading to their introduction, their successes and failures and the lessons that can be gained from each policy are examined. Chapter three continues the historical review of universal family benefit concentrating on the period since 1950. In particular, it emphasises the changing political ideology of government and the gradual move away from universal benefits towards means-tested family policy. It describes the abolition of universal family benefit in 1991 and the main policies which replaced it. A brief analysis is provided of current policy and the lessons that can be learnt from the period.

Chapters four to ten develop the case for universal child allowance within the context of New Zealand's current policy framework. Each of the seven chapters presents a separate argument. Chapter four examines the extent of relative child poverty in New Zealand and outlines the need to respond with appropriate policies. The chapter also argues that the increasing proportion of single parent families and the constant exposure to insecure employment create risks which lead to poverty. Universal child allowance, because of its poverty reducing properties, is suggested as an appropriate policy response. Evidence is also provided of countries that have used universal child allowance as part of a successful policy package to reduce child poverty.

Chapter five has a similar theme to chapter four but refers to maternal poverty. The chapter suggests that mothers' poverty arises for several reasons including the fact that mothers continue to take responsibility for unpaid work within households, but do not always receive an equitable share of household income. It argues that as mothers tend to be the primary caregivers and spend the most on children, mothers' poverty impacts negatively on children. Mothers who are impoverished tend to suffer ill health which in turn affects their ability to be effective parents. The second half of the chapter provides reasons for why mothers are empowered through a universal child allowance.

Chapter six outlines the substantial costs of children which include both the direct costs of maintaining children's physical needs as well as the indirect costs of earnings from paid employment foregone to look after children. The arguments supporting universal child allowance as a means of contributing to the costs of raising children and compensating for lost earnings are presented.

Chapter seven is based on the theoretical argument that sound parenting benefits society because it increases the likelihood that children will grow up to be caring and productive adults. It suggests that universal child allowance is a payment to parents from society for the advantages which good parenting brings. The underlying argument is that those who gain future benefits from children have an obligation to fund the costs of raising children.

One of the more pressing arguments from a policy perspective concerns the role that universal child allowance plays in encouraging parents, particularly mothers, into paid employment. Unlike means-tested benefits which create poverty traps, universal child allowance encourages mothers to combine work and family without creating a disincentive to either. This argument is outlined and debated in chapter eight.

Current New Zealand demographics are characterised by a declining birth rate and an ageing population with implications for the future supply of workers. Chapter nine outlines the social and economic policy frameworks which have resulted in women having fewer children. These include the need to work longer hours in paid employment, insecure jobs, low pay, the impact of student loans and the unreliability of family financial assistance policies. The chapter addresses the question of why universal child allowance might have a pronatalist effect on prospective parents.

Chapter ten presents a variety of arguments for universal child allowance based on the general advantages of universal benefits. It begins by outlining their general properties including simplicity, regularity and reliability. Because of these attributes and the fact that universal benefits are non-stigmatising, they also have high take-up rates. Universal benefits also contribute to solidarity within communities because they are a means of connecting families. The final section of the chapter addresses the main arguments against universal benefits as debated by critics. The final chapter provides a summary of the main arguments for universal child allowance presented in this thesis.

CHAPTER 2

A HISTORY OF CHILD BENEFIT IN NEW ZEALAND: 1926-1946

2.1 INTRODUCTION

This chapter provides an analysis of New Zealand's family allowance and family benefit schemes from the early 1920s until the post-war period of the late 1940s. Three questions are addressed in the chapter: What were the economic, social and political factors which led to the introduction of family allowances and universal family benefit? What were the successes and failures of each policy, and were there lessons to be learnt from either policy? It is intended that the answers gained from these questions will provide an insight into the appropriateness of reintroducing a universal child allowance as a social policy in 21st century New Zealand.

2.2 OVERVIEW OF THE HISTORY OF FAMILY ALLOWANCES

2.2.1 The Family Allowances Act 1926

Economic, Social and Political Context for Introducing Family Allowances

A century ago New Zealand governments, like those of other liberal nations, made little provision for the support of families with children, least of all for families with a male able bodied breadwinner. At the beginning of the 20th century financial assistance to families was highly selective, with state policies focusing on large families rather than all families with children. Selectivity was achieved by both income and asset testing. However, New Zealand's experience of social and economic problems preceding the 1925 election as well as the influence of sector groups heightened politician's awareness of family issues and led to the introduction of means-tested family allowances in 1926. The following is a brief discussion of factors leading to the 1926 Family Allowances Act.

The first factor concerned the growing recognition that male wages were insufficient to keep large families out of poverty. The quinquennial census, published prior to the introduction of the Family Allowances Bill, revealed that approximately 50,000 children or one-eighth of the total child population were living in poverty (Campbell, 1927:373). There was growing acknowledgement that low pay and large family size rather than irresponsible parenting was the

cause of poverty and, therefore, worthy of state assistance (Beaglehole, 1993:8). Family allowances, which subsidised the family wage for larger families, were a possible solution.

Another rationale behind the 1926 Family Allowance Act was the belief that allowances would promote women's maternal role in response to concerns about a declining birth rate (Beaglehole, 1993:8). For example, in the 1860s the average New Zealand marriage produced 8 children. By the 1920s, however, the statistic had fallen to 2.5 children (Thomson, 1991:35). Many believed that family allowances as a pronatalist policy would be likely to find favour in New Zealand (Campbell, 1927:373). Similarly, the New Zealand Labour Department's 1925 report affirmed the belief that family allowances would tend to increase the average size of the family while single men would be encouraged to marry. The family allowance concept thus appealed to moral conservatives.

Acceptance of the idea of a family allowance was also influenced by the eugenic movement who were concerned with population quality. As Beaglehole (1993:8) suggests "*giving low-income mothers an allowance would enable them to rear healthier children for the good of the race*". Numerous eugenic books were published in New Zealand, and during the period 1900-1920 close ties developed between eugenics and the progressives of the Fabian Society, an organisation which publicised the concept of a motherhood endowment (MacNicol, 1980:81). While some of the advocates of family allowances openly expressed views which would be now seen as racist in the extreme, other supporters saw different potential for such a benefit.

Impetus for the idea of a family allowance also came from feminist organisations. For example, the National Council of Women (1925) and the Women's Christian Temperance Union (1920) argued for an allowance to ease the financial burdens of childrearing, and as a reimbursement to mothers for the costs of children. New Zealand feminists, however, were not alone in their fight for family allowances. In Britain Eleanor Rathbone was a principle advocate for family allowances, with her views published in the book "*The Disinherited Family*" (Rathbone, 1927). Undoubtedly, Rathbone's views would have contributed to the determination of New Zealand feminists and their advocacy for family allowances.

While these issues were important, however, they tended to be background factors rather than the immediate impetus for passing family allowance legislation. It is argued that the 1926 Family Allowances Act came about because of the 1920s wage crisis, a crisis which arose because of the debate between workers' rights to a living wage and unfavourable economic conditions (Burns, 1974; Thane, 1982; Castles, 1985; Martin, 1990). To illustrate, following 1921 the economy was characterised by fluctuating prices, a destabilised farming environment,

extensive government borrowing, unemployment and bankruptcies (Sutch, 1969:199). During this time there was growing demand for the provision of a “*fair wage*” that would take account of men’s family responsibilities (Beaglehole, 1993:8). However, in such an unfavourable economic climate, employers objected to wages increases. Moreover, the idea of a fair and reasonable wage offering a predetermined standard of living highlighted the inequity of paying the same wage to families of different sizes. The obvious solution was to supplement the basic wage with state assistance taking account of family size. By 1925 the Court of Arbitration agreed that a minimum basic wage should be sufficient to maintain a man, wife and two dependent children (Easton, 1980:105). The government then agreed that families with more than two children would receive family allowances as a supplement (Bryder, 1991:39). The following quote, taken from the Reform Party’s 1925 Political Manifesto, summarises the desire of the Government to help families with more than two children:

The Government recognises that while wages are fixed by the Arbitration Court on the assumption that a man has a wife and two children, those wage earners whose families exceed that number must find it difficult to make ends meet. Proposals to meet this difficulty have been put forward. The Government will examine them carefully, with a view to finding some means of helping the worker, so that large families will be encouraged and not discouraged (Assistance to Large Families, 1925:15).

Features of the 1926 Act

The 1926 Family Allowances Act established non-contributory provisions funded out of the Consolidated Fund paid directly to the mother. While means-tested and restricted to working families whose total family income was less than four pounds per week, it provided two shillings weekly allowance for the third and each subsequent child aged less than fifteen years (McClure, 1998:41). The strict eligibility was attributed to the reluctance to introduce policy perceived as taking over the breadwinner’s responsibility for supporting the family (McClure, 1998:42).

Although the family allowance was paid directly to the mother, the legislation was not designed to create financial autonomy amongst women with children. It was paid only to mothers in a traditional family structure where the father was the breadwinner, and was not available to alien or Asiatic families (Royal Commission on Social Security in New Zealand, 1972:44). It, therefore, also reflected eugenicist concerns current at the time.

2.2.2 Analysis of the 1926 Family Allowances Act: Successes and Failures.

Introduction

The 1925 Reform Party's election manifesto outlined two objectives relevant to family allowances: encouraging families to procreate, and improving the welfare of low income families (Martin, 1990:30). How successful was the 1926 Family Allowances Act in achieving these objectives: Did the allowance stimulate fertility, and did it alleviate the financial hardship of needy families?

Which Objectives Were Achieved?

Family allowance advocates claimed that it would encourage the procreation of children (Reform Manifesto, 1925:15). There is little New Zealand evidence, however, to support this hypothesis with statistics indicating a declining birth rate. For example, in 1926 there were 28,473 births, giving a rate of 21.05 births per 1000 of mean population. A declining trend then occurred through the late 1920s and 1930s, eventually levelling out in 1935 at 23,965 births or 16.17 per 1000 mean (Department of Statistics, 1939:80).

The evidence that family allowances had little influence on the New Zealand birth rate was similar to that provided by international researchers. For example, during the 1930s and 1940s international research showed little correlation between family allowances and any rise in birth-rates. Such conclusions were also reinforced by evidence showing that population increases occurred in countries without family allowances (Burns, 1974:12).

There is some evidence that family allowances had limited success in helping families living in poverty. The first point, however, is that fewer families than expected applied for the allowance. For example, the number of applications lodged in the first year totalled 3,980 of which 3,154 were granted providing for a total of 16,066 children. The 1926 New Zealand census showed that at that time there were 426,695 children under the age of 16 years, 233,821 married women and 3,063 legally separated women (Beaglehole, 1993:9).

The Pensions Department attributed the smaller number of applications to parents' apathy and ignorance (Department of Pensions, 1929:1). Others, however, argued that the minimal amount of the allowance was probably not worth parents applying for it (McClure, 1998:42). Indeed the amount of two shillings per child was described as meagre. A politician from the Alliance of Labour Party argued that "*it would not keep a well developed fowl let alone a healthy child*"

(Sutch, 1966:152). In terms of its generosity, New Zealand's means-tested family allowance did not compare as well as schemes later adopted in other countries. For example, the New South Wales Government implemented a universal family allowance scheme of five shillings per week for every child (Martin, 1990:31). In comparison, the New Zealand scheme of two shillings per eligible child meant that in 1926 only 23.5 percent of married men and widowers with three or more children earned less than the qualifying amount of two hundred and eight pounds per year or four pounds per week (Department of Statistics, 1926:24, 40, 43).

Although it is difficult to isolate the impact family allowances had on family income and poverty reduction, the fact that the amount of the allowance was minimal and means-tested suggests that its impact was likely to be small. This does not mean, however, that it was insignificant. Regardless of its less generous amount, Beaglehole (1993:9) suggests that as family allowances were paid in cash and directly to the mother, they were of some benefit. Although in 1927 two shillings per week represented only 2.2 percent of the average nominal weekly wage, the amount could buy four two pound loaves of bread or a pound of butter (Department of Statistics, 1928:769,771).

To summarise, although the success of family allowances was mixed, family allowances were amongst the more important income relief measures introduced during the early part of the century, and contributed to New Zealand's reputation for humanitarian legislation (Hanson, 1980:24; McClure, 1998:40). Believed to be one of the first nationwide Acts of its kind in the world providing for state funded family allowances, the 1926 Family Allowances Act recognised that raising a large family was as much a cause of poverty as being indisposed or elderly.

Although the 1926 Act was not generous in its monetary provision and only provided a means-tested benefit, it was important in establishing certain principles which remained in existence for a number of years. The first of these was that the state had some responsibility for the welfare of families with children (Social Security Department, 1950:29). Second, it provided for a payment direct to the mother as recognition of her role in managing the family. Moreover, although the amount paid to poor families was minimal, it set a precedent to be extended by the Social Security Act 1938 and then the Social Security Amendment Act 1945. It is reasonable to conclude, therefore, that the Act was significant because it created a model for continued state support of families.

2.3 OVERVIEW OF THE HISTORY OF FAMILY BENEFIT

2.3.1 The Origins of Universal Family Benefit

Introduction

The depression of the early 1930s led to political changes with the overwhelming victory of the Labour Party in 1935. Significant social and economic legislative changes followed over the next ten years. For example, two important pieces of legislation relevant to families were the Social Security Act 1938 and the Social Security Amendment Act 1945. The former oversaw the renaming of family allowance to family benefit with increases in the amount and threshold limits, while the latter introduced a universal family benefit.

The following discussion begins by looking briefly at each of the Acts. It then discusses the social, political and economic contexts in which universal family benefit was introduced. A brief analysis of its success follows.

Social Security Act 1938

The apex of the new Labour Government's social legislation was the Social Security Act 1938 which saw the adoption of a unified approach to health, income maintenance and general welfare of society (Rudd, 1997:241). However, significant in many aspects, the Act did not add to the 1926 principle of financial support for two-parent families where the father was employed. One explanation was that the Labour Government viewed rising prosperity, social security for atypical circumstances, free health and education, the housing assistance program and the 1936 legislation of amended wage rates as sufficient (Easton, 1980:106).

For some families, however, the 1938 Act proved beneficial. Apart from a name change from family allowance to family benefit, the Act increased the amount of payment for the third and subsequent children to four shillings and the income limit to five pounds (Sutch, 1969:254). Four shillings was equivalent to 4.1 percent of the average male nominal wage, while five pounds was 15 percent above the average male nominal wage rate. Moreover, alien, Asiatic and illegitimate children were included as eligible recipients. Subsequent amendments included payment of the benefit to the second child in 1940, followed by the first in 1941.

Although post 1938 New Zealand embraced a more generous welfare system, it remained more residual than social democratic in principle (Rudd, 1997:242). This was evidenced by the

continued means-testing of family benefit. Further, the distinction between the deserving and undeserving poor, a salient feature of financial assistance programmes, was still to be found in the 1938 Act. For example, family benefit could be stopped if it was being used to pay for items other than the costs of raising children (O'Brien & Wilkes, 1993:54).

Over the next few years the amount and qualifying requirements for family benefit were progressively extended, particularly during the war years when the benefit was increased to keep pace with the wartime price index (Sutch, 1969:254). For example, July 1943 the benefit was increased to seven shillings and six pence, equivalent to 6.7 percent of the male average nominal wage rate. In October 1944 it was increased to ten shillings, equivalent to 8.8 percent of the average of the Arbitration Court awards (McClure, 1998:98). Sutch (1969:254) described the increases as "*a great step forward in social security and in raising living standards*". Such increases illustrated the potential for improving provision for children and their families once the principle of state responsibility became established.

Social Security Amendment Act 1945

One of the most significant changes to family assistance following the Social Security Act 1938 was the Social Security Amendment Act 1945. The amendment made provision for a universal family benefit for all children of ten shillings per week per child commencing on 1 April 1946 (McClure, 1998:105). The rate was equivalent to 8 percent of the average nominal weekly wage of six pounds and ten shillings. This was equivalent to one-tenth of the male minimum wage and one-sixth of a woman's minimum wage of three pounds and three shillings (McClure, 1998:106; Beaglehole, 1993:10).

In the first year of universal family benefit it was paid to 485,000 children out of a total New Zealand population of less than two million (McClure, 1998:106). Both the universal aspect of family benefit and the increased amount meant a substantial increase in family income. It also indicated the Labour Government's commitment to the family, and reflected the growing popularity of family allowances world-wide (Bryder, 1991:41). It was in this year that Britain introduced family allowances.

2.3.2 Introduction of Universal Family Benefit: Economic, Social and Political Context

Introduction

Child allowances encourage the creation of life and rearing of children who, in due time, will come to adult estate and take their places as workers and taxpayers. The limited New Zealand family allowance, which has been operating in one form or another since 1927, has been a godsend to some parents on the lower income levels but the middle groups, which form the core of the community, have had to go along paying their own way. Moreover, it is important that an economic incentive towards having children should react through all the groups. Whether the provision of £26 a year for every child will have that effect only time can tell but the experiment is well worth trying (An Incentive To Have Children, 1945 October 8).

The aftermath of World War 2 saw the development of new policy priorities as attention shifted from the elderly and concerns over superannuation to fostering the potential of a young productive society. As the following discussion highlights, one of the objectives of universal family benefit was to create a fit and healthy population capable of rebuilding a nation whose people had been affected by war.

However, there were also other important reasons underpinning the introduction of universal family benefit. Politicians were concerned about the financial status of the family and the well-being of children. It was recognised that children were an investment in the future and as such the state had some responsibility for them. Politicians were also convinced that given a declining birth rate and the need to populate the country with healthy children, universal family benefit would act as an incentive for couples to have more children.

Although each of these reasons is valid, one of the more important points was the acknowledgement that means-tested family allowances discouraged the take-up of paid work. The attributes of universal family benefit as an unconditional allowance meant that disincentive problems would not occur. The following reasons were given at the time for introducing universal family benefit.

To Improve the Financial Status of Families

It was argued that in the midst of post-war social and political change the economic status of the family had declined. The state, however, not only recognised that families were suffering from war, but also acknowledged that childrearing exposed families to extra financial pressures. An important principle was that families with children should not be worse off than those without.

Politicians agreed, therefore, that direct legislative action was required to bring families to a “*level of economic near-equality*” (An Incentive to Have Children, 1945 October 8).

Moreover, by putting the family benefit on a universal basis, the state acknowledged that all families were facing financially challenging times. The following quote from the Auckland Star expressed such a view:

The desirability, on both ethical and economic grounds, of the family allowance is now widely recognised. It is a matter of common observation that, from the strictly economic point of view, married people with children are handicapped and the greater the number of their children, the greater is the handicap. It is certainly in the public interest that this handicap should be reduced, and the immediate effect of the new legislation will be to give financial relief in places where it is most needed. The real relief may be greater among some people of the ‘middle-income’ groups than in the lower groups. This is the Bill’s justification (Universal Family Allowances, 1945 October 5).

To Improve the Wellbeing of Children as an Investment in the Future

An important principle outlined by Walter Nash (1945:632) also added to the impetus for universal family benefit. Nash argued that as members of society on whom the future depended, children had a right to community support. Such support had traditionally been seen as the responsibility of parents.

Others also perceived children as an investment in the future and, therefore, their welfare should be maintained through universal financial assistance. The following quote from the Greymouth Press summarises this widely held view.

The family is by far the most important unit in the community. If it fares well, so will the country. Next year will in this respect witness an innovation that must focus world-wide attention. This is the universal family benefit affording every child under the age of sixteen years ten shillings per week towards its maintenance. It is no negative provision, such as an income tax concession, but a positive payment (Universal Family Benefits, 1945 October 5).

To Provide an Incentive to Counteract the Declining Birth Rate

Politicians believed universal family benefit would act as a “*direct economic incentive for parents to have children*” (An Incentive to Have Children, 1945 October 8). There was increasing concern during the depression and war years at the low level of childbirth, and a fear that the pattern would repeat itself post-war (Keating, 2002:10).

The perception was that an incentive was needed for families to have children which in turn would ensure that New Zealand had a future productive workforce. Strong, healthy children and lots of them were a vital component of post-war economic policy planning. As Acland, a Member of Parliament, claimed “*The prime need is for reconstruction through hard work with a young and virile population*” (Nelson Evening Mail, 1945 30 August, cited in McClure, 1998:100).

To Gain Middle Class Support

Although the middle classes acknowledged the government’s drive for a population increase, at the same time they argued that all parents incurred increasing costs of rearing children. Such expressions added to the pressure for more inclusive family benefits (McClure, 1998:102).

To illustrate, teachers and skilled workers, who formed part of the group of poorly paid middle class professionals, argued that they were deserving of the same financial assistance given to wage earners. Moreover, they also argued that if family benefit was paid to the middle class, who formed the core of society, it would no longer be considered a charitable allowance. It would, therefore, receive greater support and its provision in the future would be assured.

To Counteract the Disincentives of Means-Tested Family Allowances

Another reason for introducing universal family benefits was based on the argument that means-tested family allowances were a disincentive to paid work. To illustrate, one of the objectives of government following the war was to increase production and extend the hours of paid employment (McClure, 1998:98). It soon became obvious that a universal family benefit would be more conducive to achieving these goals than means-tested family assistance which served to discourage increased hours of work, greater pay rates and job promotions.

To illustrate, instances were quoted where family men in receipt of family allowances were refusing promotion or higher paid work because extra remuneration received was negated by reductions in the allowance (Family Allowances, 1945 October 6). If parent’s combined income exceeded the five pounds per week income limit, then family allowances were reduced pound for pound of earnings (McClure, 1998:97).

2.3.3 Analysis of Universal Family Benefit: Successes and Failures

Introduction

While it can be argued that the primary goal of universal family benefit from the perspective of politicians was to encourage a nation of healthy and productive workers, universal family benefit contributed to the wellbeing of families and society in a variety of ways. The following discussion highlights its main achievements.

What did Universal Family Benefit Achieve?

There is evidence that in combination with free education, cheap housing and a readily accessible health system, universal family benefit contributed to improved family living standards. Increased income enabled families to live healthier lifestyles evidenced by improved features such as the heights and weights of children. For example, between 1934 and 1954 fifteen year old girls became an inch taller and seventeen pounds heavier, while boys were on average four inches taller and twenty six pounds heavier (Sutch, 1966:364).

However, not only did universal family benefit improve living standards depressed by six years of war. Rather, it also removed the social division between those families receiving the benefit and those who were ineligible (Sutch, 1966:299). Hence it is reasonable to conclude that the universal nature of the benefit contributed to improved social cohesion and solidarity within communities following the devastation of war.

Universal family benefit was a welfare policy from which women benefited and greatly valued. Although the benefit may well have been a response to a male vision of the need to rebuild the country's industrial capacity, women perceived it as an acknowledgement of their domestic duties (McClure, 1998:109). Moreover, the benefit contributed to a new political emphasis on the role of motherhood. For example, a Labour Member of Parliament, William Parry, argued that an attitude of indifference towards mothers was to be discouraged. Universal family benefit by raising the status of the mothers would help achieve this. *"We have to create such enthusiasm for the service the mother renders, that it will be lifted to the highest pinnacles of service in the nation"* (Parry, 1945:532).

As a payment to mothers, universal family benefit was likely to be their only source of independent income and, therefore, provided a form of financial independence to those who remained at home as caregivers. It also provided continued independence to women who had

participated in the paid workforce during the war, but subsequently became redundant as men returned home (McClure, 1998:109). A payment of ten shillings per week per child in 1946 represented a substantial amount of money. For example, while the benefit for one child was one-tenth of the male minimum wage, it was almost one-sixth of a woman's minimum wage of three pounds three shillings. Moreover, as benefits were not taxed, a woman with two children received the equivalent of a full day's pay for a labourer (Beaglehole, 1993:10). Raising three children earned a mother almost half a woman's minimum wage.

Finally, from society's perspective the universal nature of family benefit meant that an increasing proportion of the community were participants in the social security system. Middle-class disparagement of the welfare state, therefore, was unlikely. As McClure (1998:111) argued universal family benefit was perceived as a right, uniting families from all walks of the socio-economic spectrum, and intensifying the feeling that social security was for all New Zealanders.

2.4 CONCLUSION

Given the successes and failures of means-tested family allowances and the successes of universal family benefit, what conclusions can be drawn from the brief analysis of each policy? Are there lessons for current policy advisers?

First, although means-tested family allowances were more extensive than previous financial assistance policies, they did not meet all intended objectives. One particular observation was that not all eligible families made applications for the allowance. While possible explanations included the lack of public information and the allowance's limited value, a more disturbing explanation was the negative images associated with means-tested benefits. The complexity of such benefits, confusion over qualifying criteria and the stigma that was attached may have overridden the logic that extra assistance was available. It is possible that for these reasons some families failed to take-up their family allowance entitlement. The lesson for today's policy advisers is that the negative features of means-tested benefits may influence their take-up and compromise achieving the relevant policy goal.

It was argued that the rate of family allowances was too low to improve family budgets and impact on child poverty. By contrast, a more generous universal family benefit provided additional income to all families leading to improved lifestyles and healthier children. Two points are worth noting. First, the contrasting differences between each policy in terms of eradicating poverty suggest that universal benefits do have a role to play in improving family

living standards. Second, at the time of its introduction, universal family benefit was relatively generous and impacted positively on living standards. In order to be effective, therefore, in reducing child poverty today, the amount of family assistance needs to be reasonable.

From the perspective of mothers, universal family benefit provided a valuable source of family income to be spent on children. Payment direct to the mother meant that income was effectively distributed into mother's pockets. Not only did this provide an important source of income to meet the costs of raising children, but in cases where the male breadwinner failed to adequately share income provided the wife with money of her own. This point was relevant not only for poor families, but also for households where the husband was earning sufficient income. The lesson here is that additional income paid to mothers in the form of child allowance could be important in developing a sense of independence and empowering mothers.

Another key lesson from the analysis of the two policies concerns the disincentive effect of means-tested family benefits on increased hours of paid employment. A current policy goal is to increase the number of people in paid work. As observed in the post-war period, universal family benefits did not interfere with employment decisions. Their lack of interference makes them an appropriate policy instrument in today's economic climate of encouraging people's attachment to paid work.

Finally, the universal nature of family benefit and the fact that it was the right of every child helped create social solidarity amongst families of differing socio-economic status. Such policies were particularly important in the post-war rebuilding of society. In today's society, where the emphasis of liberal policies tends to be on individualism, the sense of unity and belonging which characterises universal benefits could help socially integrate people.

The relevance of these points to reintroducing universal child allowance in the 21st century is discussed in depth in the proceeding chapters. Before looking at these, the next chapter looks at the demise of universal family benefit and the kinds of policies which replaced it.

CHAPTER 3

RETREAT FROM UNIVERSALISM: 1950s TO THE PRESENT

3.1 INTRODUCTION

This chapter continues the review of New Zealand's child benefit policies concentrating on the period since 1950. The discussion provides a brief account of the transition of family financial assistance policies from family benefit based on the principle of universality to that of means-testing. The underlying determinants leading to change are also discussed.

From the perspective of the thesis the most significant event leading into the 21st century was the abolition in 1991 of universal family benefit. This occurred as changing ideology favouring selective benefits emerged. One of the more significant selective policies during the period was Family Support. Although revamped under the Working for Families package, Family Support and the In-work Payment remain the cornerstone of today's family financial assistance.

The chapter addresses the following questions. In what ways did family financial assistance change during the period, and what were the underlying factors causing change? What was the public's reaction to the abolition of universal family benefit? What were the main policies replacing it? Do these policies present problems which universal child allowance could ease? What lessons can be learnt from the period?

3.2 THE 1950s AND 1960s: DECLINING STATE GENEROSITY

3.2.1 Introduction

During the 1950s and 1960s the New Zealand economy was characterised by prosperity. As an illustration, official registered unemployment was less than 1 percent of the workforce, economic growth averaged 4.5 percent per annum, workers experienced rising real wages and employers enjoyed high levels of profitability (Rudd, 1997:243).

Moreover, full employment became the cornerstone of the welfare state, with both National and Labour Governments pursuing labour market policies. An able-bodied, full-time employed male received a social wage, as determined by the Arbitration Court, sufficient to care for a dependent wife and three children. For individuals who were not fit for employment the state

provided support (Rudd, 1997:243). However, such support was not adjusted for changes in the Consumer Price Index (CPI), a point to which the thesis will return shortly.

3.2.2 Changes to Universal Family Benefit

During this period significant legislative changes were made to universal family benefit. The Family Benefits (Home Ownership) Act 1958 was passed allowing for the capitalisation of future family benefits up to the value of one thousand pounds to assist with the purchase of a new home (Hanson, 1980:127). At a later period the Labour Government extended the Act to include capitalisation of the benefit for the purchase of existing homes. It could also be used to purchase clothing and equipment for children attending intermediate or secondary school.

These changes intensified financial assistance for childrearing at a time when families needed it most and, therefore, were a logical extension to the principle behind the family allowance concept (Hanson, 1980:127).

3.2.3 Declining Real Value of Family Assistance

Although many families benefited from the 1958 Family Benefit Act, others were disadvantaged because of the failure of universal family benefit to be adjusted for changes in the CPI. As its value fell to a token amount, it became a smaller proportion of a family's income. For example, relative to the average wage the value of the benefit declined from 7.7 percent of average weekly earnings in 1947 to 5.5 percent in 1958 (Beaglehole, 1993:10).

Politicians believed that given full employment and the availability of overtime work, family benefit was less essential (McClure, 1998:150). By contrast, others argued that a lack of accurate budgeting exacerbated the ignorance of politicians over family needs. Moreover, a lack of philosophical commitment to maintaining an adequate level of financial assistance for families meant that the government failed to ensure the same level of economic wellbeing as for childless couples at the same income level.

3.3 THE 1970s TO THE 1990s: CHANGING NATURE OF THE WELFARE STATE

3.3.1 Introduction

A changing economic environment combined with the 1984 election victory of the Labour Party led to comprehensive economic reforms and welfare state restructuring. To illustrate, the period

marked the beginning of a revolution in economic and social policy involving greater reliance on market allocation of resources, less state regulation and less direct public provision (de Bruin, 1999:6).

Moreover, the strategy adopted by the Labour Government created the pre-conditions for the National Government's extension of "economic-rationalism" of the welfare state in the post-1990 period. The increasing emphasis on means-tested financial assistance eventually led to the abolition of universal family benefit.

3.3.2 Changing Economic Climate

Both the formal entry of the United Kingdom into the European Economic Community and the first oil shock made 1973 a distinctive dividing line in the economic history of New Zealand (de Bruin, 1999:4). Increasing integration into a global economy, reduced access to the British export market and resulting balance of payment problems contributed to growing unemployment. As a result the economy experienced a downturn in economic growth, high inflation, businesses recorded a decline in profitability and employees experienced a fall in real wage growth. While small budget surpluses were still evident in the mid 1970s, by 1983/84 a Budget deficit of 6.9 percent of GDP led to a fiscal crisis (Dalziel, 1992:20).

Government advisers were concerned that social welfare spending, the major component of government spending, showed significant growth. For example, in 1971/72 welfare spending excluding education and health accounted for 21 percent of total government spending. By 1980/81 it had increased to 28.3 percent, reaching 30 percent by 1986/87. As a percentage of GDP during the same period, welfare spending increased from 6 to 11 percent (Rudd, 1997:247).

The economic and social problems referred to led critics to argue for reforms that would have a significant impact on both the economy and the welfare state. Future changes included deregulation of the labour market, the abandonment of full employment as a key policy goal, a shift away from progressive taxation and extensive changes to welfare benefits.

3.3.3 Changing Political Philosophy

In its 1984 Briefing Papers to the incoming government, the Department of Social Welfare advocated a new approach to family hardship (Department of Social Welfare, 1984:79). Perceiving that the government was unlikely to increase wages, the Department suggested a new

form of assistance involving an income supplemented benefit modelled on similar measures to Australian and British policy.

Government's desire to improve economic conditions meant family assistance policies underwent radical change. The objectives of preventing family poverty and achieving a vertical redistribution of household income through means-testing underpinned family policies. Existing alongside universal family benefit, a new form of means-tested income support, termed Family Support, was introduced in October 1986. A form of direct income support, it provided a refundable tax credit based on joint parental income and the number of children (St John 2004:4). Both beneficiary and working families were entitled to Family Support, with eligible families receiving \$36 per week for the first child and \$16 for subsequent children (Foubister, 1991:9). From 1988 Family Support abated by 18 cents in the dollar from joint parental income of \$17,500 up to \$27,000 and by 30 cents above that (Child Poverty Action Group, 2001:1).

3.4 THE 1990s: THE END OF UNIVERSAL FAMILY BENEFIT

3.4.1 Introduction

The fifteen years from 1984 was a significant period in New Zealand's economic and social history. The Labour Governments between 1984 and 1990 took steps to reduce the public sector by limiting public welfare spending and privatisation of state assets. In 1990 the newly elected National Government even more firmly embraced monetarism. In adopting a market reform strategy, pressure was placed on the social welfare system to also conform to the market (Saunders, 1999:498).

A particular economic principle adopted by the National Government was that work should receive a different reward from non-work and that non-workers should not be entitled to the same quality of life as workers (Bolger, Richardson & Birch, 1990:9). As a result National continued the fourth Labour Government's efforts to cut welfare benefits making explicit its aim that welfare changes were to shift people into the workforce. Moreover, resulting reductions in public expenditure were perceived as having added economic advantages of reducing budget deficits and public debt levels (Saunders, 1999:498).

3.4.2 The End of Universal Family Benefit

The incoming 1990 National Government introduced a number of changes that would directly affect families, especially those on low incomes. These included cuts in welfare benefits,

removal of subsidies for state housing rentals, increased user part charges for health care and the Employment Contracts Act. One of these changes for families was the announcement in December 1990 of the forthcoming abolition of universal family benefit. As a result in 1991 universal family benefit and Family Support were amalgamated with the entire amount subjected to abatement against joint family income (St John, 2003:4). While low-income families received a selective benefit and average-income families received minimal amounts, high-income families were now completely responsible for the costs of child rearing.

At the time of repeal the value of the family benefit was \$6 per week per child, equivalent to less than 1 percent of average wages (Child Poverty Action Group, 2001:1). As the benefit was only a token amount, its removal attracted little protest (McClure, 1998:238). Its disappearance after almost fifty years, however, marked the end of an era of universal family assistance and recognition of the contribution that families made to the nation regardless of individual family incomes.

3.4.3 The Importance and Popularity of Universal Family Benefit

Before looking at recent policies, a brief summary is provided of the importance of universal family benefit to those who received it. Even though the amount of \$6 had not increased since 1979 and in spite of its diminished value, the benefit's demise was significant.

Evidence as to the importance of universal family benefit can be observed by mother's reactions to government suggestions that it be abolished. To illustrate, in 1987 when the Labour Government publicly mooted the idea of abolishing family benefit, women's organisations objected strongly on behalf of their members. National Council of Women (NCW), an umbrella organisation for women's groups, received correspondence from members suggesting that women regarded the family benefit as important in providing independence. They also viewed it as an acknowledgement of the importance of child rearing. National vice-president Stella Casey stated the following: *"For some women, the family benefit is the only money of their own they handle until they get superannuation"* (Vincent, 1987:26). It was evident that if universal family benefit was abolished, mothers who did not have an income of their own would be deprived of a payment they were entitled to in their own right.

Further evidence was provided by a survey conducted by the New Zealand Women's Weekly in 1988. Survey results showed that 96 percent of respondents opposed the Government's plan to abolish family benefit (Parker, 1988:16). Moreover, the survey highlighted some disquieting facts not least that middle-income New Zealand families greatly valued the fortnightly

supplement of family benefit as they also were experiencing financial hardship. The following is a quote taken from the survey:

Topping the list is the genuinely hard time middle New Zealand - the working couple on one income or the family where a young mother works part-time to supplement a low wage – is having in these inflationary days of exorbitant interest rates, spiralling costs and sky rocketing food bills. They're people in the \$20,000 to \$30,000 a year income bracket with young children and they are silently stewing about their diminished standard of living (Parker, 1988:16).

Universal family benefit was also an important contribution to the portion of family income used to pay for children's expenses. To illustrate, a respondent to the Women's Weekly survey described how over the years family benefit was used to help pay children's fees including school, sports, dancing, speech, music, woodwork, sewing, Brownies, Guides, Rangers, Cubs, Scouts, school trips, admission to the movies, haircuts, stationery and clothing. For others, it contributed to meeting a shortfall in the payment of urgent bills including the doctor and dentist and on weeks when household cash flow was challenged "*it has bailed the housekeeping purse out*" (Parker, 1988:16,17).

To summarise, universal family benefit was a popular and valued form of assistance to families with dependent children. The various quotes support claims that it assisted mothers to achieve some financial independence, bestowed a sense of dignity and assisted in meeting the costs of raising children. Each of these issues will be discussed in more detail in future chapters.

3.5 THE 21st CENTURY: POLICY ENVIRONMENT RELEVANT TO FAMILIES

3.5.1 Introduction

In 1999 the New Zealand Labour Party was re-elected to office, and is currently in its third successive term. Although they have not restored welfare benefits to their pre 1991 levels and have not reintroduced universal family benefits, there has nevertheless been greater assistance to families with children than during the 1990s. State housing rentals are now once again controlled by government, Paid Parental Leave has been introduced and extended and there is more state funded childcare and financial assistance to families with employed parents.

Some of these policy changes in 21st century New Zealand stem from a greater commitment to a more equitable society. However, governments are influenced to varying degrees by international agencies. In understanding the direction of family policies in the 21st century, it is useful to look at the nature and influences on the policy environment. Family financial

assistance policies are developed within the context of the economic, social and political environment, and include influencing factors such as demographic trends, employment patterns and poverty levels. The policy environment is also influenced by the international environment including organisations such as the Organisation for Economic Cooperation and Development (OECD).

The following discussion illustrates the influence of the OECD on New Zealand family financial assistance policy. In accordance with the OECD's recommendation, the New Zealand Government considers the best means of raising living standards for families is through paid employment and means-tested financial assistance. The most recent means-tested family policy, Working for Families, is outlined including a brief assessment of the package.

3.5.2 New Family Financial Assistance Policy: Influences and Direction

In 2005 the OECD Economic Survey of New Zealand documented one of its concerns as significant levels of relative poverty amongst families. The organisation argued that in order to rank in the top half of OECD country living standards, New Zealand needed to make greater progress in improving labour utilisation (OECD, 2005a). In particular, two categories of workers were under-represented in the New Zealand labour market, both of whom required attention in policy terms. Working-age beneficiaries including sole parents and non-beneficiary mothers were the two categories identified (OECD, 2005a:121).

The influence international organisations have on government policies aimed at improving family living standards, lowering child poverty and boosting economic growth is quickly evident when looking at the most recent family policy initiative. The policy announced in the 2004 Budget and referred to as the Working for Families package has implications for work force participation as the key to improving economic status. In focusing on rewarding persons who leave welfare and enter the workforce, Working for Families is consistent with OECD concerns on both the fiscal costs of welfare and the shortage of skilled labour (Wynd, 2006a:1).

3.5.3 The 2004 Social Security Reforms: Working for Families Package

In the 2004 Budget the Minister of Finance announced a number of social security reforms which collectively are known as the Working for Families package. The underlying theme of the package is means-tested assistance to low and middle-income families with dependent children. The mechanics of the scheme involve increasing tax-based assistance by using existing Family Assistance tax credits (Johnson, 2005:vi). The package aims to reduce child

poverty by ensuring income adequacy, strengthen work incentives by rewarding individuals for their work effort and improve the delivery of assistance by making it easier for families to access financial assistance (Ministry of Social Development, 2002-2004:2).

The package has a number of key features. These include increases in Family Support by \$25 per week for the eldest child and \$15 for each additional child. As well, there is an In-work Payment (IWP) of \$60 per week for the first three children, with a \$15 per child top-up for the fourth and additional children. The In-work Payment, which replaces the former Child Tax Credit, reinforces the rewarding of those in paid employment by being available only to families not receiving a main benefit and working 30 hours per week if a couple or 20 hours per week if single. The rate of abatement of family assistance is 20 percent on income above the \$35,000 threshold. From 1st April 2007 Family Support rates are to increase by a further \$10 per-child per-week. The package is also to be indexed to inflation, with the rates and thresholds increasing when CPI increases reach a total of 5 percent (Nolan, 2004:15; Taylor, 2005:1).

3.5.4 Working for Families Package: Two Concerns

The purpose of the following discussion is to neither condemn Working for Families nor to suggest that universal child allowance should replace it. Rather, by acknowledging the package's positive aspects and suggesting how universal child allowance could improve its weaker points, the thesis suggests that both policies should exist along side each other. While universal child allowance can ease the problematic features of Working for Families, in turn, the package can provide eligible families with greater amounts of income than would be possible with only a universal child allowance.

While overall the increased assistance provided by Working for Families is generous, it has also been described as "rigorous" in its efforts to maintain the difference between children of workers and those of beneficiaries (St John & Craig, 2004:42). In analysing the policy two key questions come to mind: (1) to what extent will Working for Families provide financial relief for poorer families and assist children in poverty and (2) will middle-income families gain from the package?

Analyses provided by St John (2005a; 2006a; 2006b), Nolan (2004) and Johnson (2005) indicate that the Working for Families package will provide financial assistance to many families. By 2007, when the package will be fully implemented, an extra \$1.6 billion per annum will have been allocated to low income families (St John, 2006b:1). Moreover, Johnson (2005:16) suggests that one of the "headline strengths" of Working for Families is its likely

impact on child poverty. In 2001 New Zealand's child poverty rate ranked tenth highest among the twenty six nations of the OECD (Perry, 2005:12). Using a poverty standard of 60 percent of median income, Perry (2004:35) notes that by increasing the incomes of many low-income families, through increased tax-based aid, the Working for Families package has the potential to reduce child poverty rates by nearly one third.

While acknowledging the potential impact on poverty, however, there are two anomalies in the Working for Families package which are commented on. The first concerns the In-work Payment, while the second involves the relationship between family assistance and marginal tax rates.

The In-work Payment is designed to reward those who are in paid employment rather than a tool to alleviate poverty. To illustrate, because the policy discriminates against families receiving student allowances, sickness, domestic purposes and the unemployment benefit, it ignores the fact that many beneficiary parents raising children have few alternative options. Although the In-work Payment is worth up to \$60 per week for a one, two or three child family, if the income earning parent is made redundant, not only is employment income lost but also additional assistance. As Wynd (2006b:4) argues family needs don't simply change because of a lost job. Neither do children deserve less because of a parent's changed circumstances. Denial of extra assistance to sickness beneficiaries, separated parents and the unemployed means children of these caregivers suffer even greater hardship.

Evidence of beneficiary adversity is provided by the recently published Living Standards Report 2004 which suggested that public policy needed to invest more in the poorest children. For example, the percentage of children living in families in the "severe" and "significant" hardship categories increased from 18 percent in 2000 to 26 percent in 2004. The increase was almost entirely driven by falling living standards for beneficiaries with dependent children (Wynd, 2006c:1). Moreover, the decline in living standards did not occur evenly across race, class and gender. For example, the percentage of Maori and Pacific families living in severe hardship increased during the period 2001 to 2004 from 11 to 20 percent for Maori and 16 to 30 percent for Pacific families (Jensen, Krishna, Hodgson, Sathiyandra, Templeton, Jones, Goldstein-Hawes & Beynon, 2006:107). There are around 200,000 Maori children living in New Zealand of which 93,423 live in families who are ineligible for the In-work Payment. Approximately 50,000 Pacific children live in non-qualifying families. As Wynd (2006c:2) suggests these are the children most likely to live in families whose living standards have fallen.

The second anomaly of Working for Families is the impact high effective marginal tax rates (EMTRS) have on two parent working families. Under the package, the number of two-parent families with children qualifying for financial assistance increases. However, while partnered couples receiving family assistance have greater total incomes, because the assistance is means-tested the amount of entitlement declines as total family income increases. The key point is that high EMTRS only apply to conditional means-tested benefits. Universal unconditional benefits, such as universal child allowance, are not affected. Although pre-election changes to Working for Families, announced in August 2005, raised the threshold rates for abatement of assistance, the discouraging impact of EMTRS is simply shifted up the income scale. These points are more fully discussed in a later chapter.

3.6 CONCLUSION

Given the popularity of universal family benefit and the fact that the Working for Families package has some disturbing outcomes, what conclusions can be drawn from a period of family policy spanning 56 years? Are there relevant lessons for policy advisers?

The first point is that universal family benefit was a reliable and valued source of income for mothers from all economic strata who made good use of it. Evidence highlighted the importance of the benefit as a form of independent income for mothers and as a means of paying for the education and maintenance of children, costs which the benefit's founders intended that it be used for. It was not only financial independence that these women lost, however, but also a sense of being valued. The demise of family benefit meant the end of society's acknowledgement of the investment parents made in their children. There is no doubt that its demise also impacted on the living standards of families.

The second point concerns the likely impact of Working for Families. The package, which was intended to improve the financial status of families with children, divides families in work and those on benefits. Rather than treating all children the same, the government has chosen to make child-related income supplements dependent on the work status of parents. To that extent, it discriminates against poor children. While the package redistributes resources to working families, those who do not qualify for the new In-work Payment are decidedly worse off.

While Working for Families attempts to encourage beneficiaries to take up part-time work or exit from the benefit into full-time work, analysis shows that such efforts are still likely to come at an economic cost. In ensuring an earnings gap, the problems of poverty traps are simply shifted up the income scale. In developing an incentive for beneficiaries to work, not only must

low benefits impoverish them, but when they are rewarded for moving into work abatement impacts on additional income. Moreover, the term social cohesion is increasingly referred to by politicians as a worthy goal for New Zealand society. How appropriate then are policies, like the In-work Payment, which discriminate between those in paid employment and those not?

The thesis suggests that the anomalies created by Working for Families could be eased by universal child allowance. As an unconditional payment, universal child allowance would not discriminate between those fortunate enough to be in paid employment and those who were not. Moreover, families entitled to universal child allowance while attached to the workforce would not be subjected to high EMTRs. Rather, the allowance would foster a feeling of inclusiveness, belonging and being valued for the important work of parenting regardless of the employment status of parents.

CHAPTER 4

PREVENTING CHILD POVERTY WITH UNIVERSAL CHILD ALLOWANCE

4.1 INTRODUCTION

This chapter develops the case for universal child allowance as a policy instrument to provide financial relief to children currently living in chronic poverty, and to prevent families with children from falling into occasional poverty. It consists of two main arguments. The first establishes the need to provide cash transfers to families living in chronic and occasional poverty, while the second develops the case for making the transfers universal.

The first argument describes the extent of chronic poverty amongst New Zealand families with dependent children. It then provides reasons for responding with financial assistance policies. The discussion is extended to include financial help to families exposed to changes in family circumstances or labour market instability. While not living in chronic poverty, they are subjected to intermittent poverty.

In developing the second argument, that child allowances should be universal, the thesis uses a range of supporting material. The section begins by identifying the properties of universal child allowance that make it an attractive policy tool. In developing an evidence based case for universal child allowances, the thesis draws upon international research. The discussion concludes with a case study of Britain to illustrate the successful application of policies, including its universal child benefit, to stem child poverty.

4.2 CHILD POVERTY

4.2.1 Child Poverty in New Zealand

Child Poverty Action Group applauds the reduction in child poverty and the improvement in a range of other important data affecting children and families as evidenced in the Social Report 2005 released by the government. However the group points out that there is still a long way to go. The current level of poverty among children (21%) is almost three times that of the elderly (8%) and 50 % higher than before the economic reforms, 1988 (14%) (Child Poverty Action Group, 2005:1).

The level of child poverty in New Zealand remains unacceptably high (Ball & Wilson, 2002; Child Poverty Action Group, 2003; Stephens, 2003; St John, 2005b). An increasing number of children living in lone parent families, children residing in families with unemployed parents, a reduction in the relative pay of low skilled workers and reductions in relative benefit levels have resulted in the spread of child poverty.

While there are no official measures of New Zealand poverty, this thesis uses the economic standard of living approach pioneered by the Ministry of Social Development. A multifaceted term, the measure looks at the physical circumstances in which people live, the goods and services consumed and the economic resources accessed (Ministry of Social Development, 2005:58).

There are numerous indicators providing information on different aspects of economic standards of living. One measure adopted by the Ministry of Social Development includes the proportion of the population with low incomes. The Ministry defines such a population “*as the proportion of the population in economic family units with equivalent income net of housing cost below three thresholds (low, medium and high)*” (Ministry of Social Development, 2005:64). The benchmarks for the thresholds are 40 percent, 50 percent and 60 percent of 1998 median equivalent net-of-housing-cost family incomes.

The Ministry’s research shows that in 2001 26.7 percent of dependent children lived in “economic family units” below the 60 percent line, twice the 1988 proportion of 13.5 percent. By 2004 the statistic had fallen to 20.6 percent, a pleasing downward trend, but still higher than 1988 (Ministry of Social Development, 2006:62).

Information gathered by the Ministry shows “economic family units” most commonly living with low incomes are families relying on income-tested benefits, lone parent families, families belonging to an ethnic group other than European, families living in rented dwellings and families with three or more dependent children. For example, in 2004 43.3 percent of children in lone parent families had net-of-housing-cost incomes below the 60 percent line (15.4 percent in 1988). In terms of two parent families, 14.6 percent of children lived in families below the 60 percent benchmark (13.1 percent in 1988). Relevant statistics for children living in families with a Maori adult were 23.6 percent in 2004 and 13.5 percent in 1988. For families with a Pacific adult, the statistics were 40.2 percent in 2004 and 23.4 percent in 1988 (Ministry of Social Development, 2006:63).

To summarise, the opening discussion shows that one fifth of New Zealand's children live in households where the income of the economic unit is below 60 percent of the medium income. Although child poverty rates have fallen from a third in the last five years, they are still unacceptably high and continue to be greater than prior to the economic reforms of the 1980s.

4.2.2 The Need to Respond to Child Poverty

New Zealand has an extensive body of research demonstrating that low parental income in childhood is associated with a range of negative consequences for children. Although there is much debate on how parental income affects children, families that are poor for a significant period tend to be different from other families. For example, persistently poor families are more likely to have a caregiver suffering from mental stress, physical health problems, low cognitive skills, drug or alcohol abuse and other problems (Krishnan, Jensen & Rochford, 2002:119). Such factors reduce the likelihood of consistent and nurturing parenting which in turn impacts on child well-being.

Krishnan et al (2002) examined the extent to which New Zealand children below the poverty threshold differed in their living standards. Parents surveyed were asked whether they restricted certain activities or purchases in order to economise, and whether they had foregone particular items and activities because of costs. Results confirmed that poor families were more likely to go without basic items important to children's wellbeing including fruit and vegetables, visits to the doctor and school books. For example, 26 percent of poor children reliant on government transfers and 18 percent of poor children reliant on market incomes were in families where school outings were restricted because of a shortage of disposable income (Krishnan et al, 2002:130).

There is evidence that New Zealand children have experienced deteriorating indicators of health over the last 15 years in part due to low household income. The survey administered by Krishnan et al (2002) provided examples of restrictions in children's health care. For example, 17 percent of poor children in families reliant on government transfers and 8 percent of children in families reliant on market incomes had visits to the doctor postponed due to inadequate income (Krishnan et al, 2002:130). This is despite the fact that visits to the doctor are free for children under the age of 6 years. More recent studies confirmed the link between poverty and poor health outcomes (Shaw, Blakely, Crampton & Atkinson, 2005).

Widespread and severe poverty existed in New Zealand in the 1990s. Evidence of food poverty was provided by the New Zealand Network Against Food Poverty (1999, cited in Child Poverty

Action Group, 2003:15). Their Report “*Hidden Hunger: Food and Low Income in New Zealand*” suggested that food poverty was a reality and affected women and children most severely. Moreover, the Report argued that where there was insufficient money for basic food, there was insufficient money for other necessities. Although improved budgeting assisted in some instances, the authors argued that too little income rather than lack of budgeting was the problem.

Although as we have seen poverty has been reduced in New Zealand in recent years, food banks are still required to address food poverty. This is the case even though the Labour Government has instituted policies (Working for Families package) to stem the increase in child poverty. The following quote provides evidence of the continuing demand for food bank services:

In the first five years of this century, the New Zealand economy has been robust, yet for the first time ever under such conditions food banks such as the Auckland City Mission have been reporting record demand for their services (Wynd, 2005:1).

To summarise, the discussion so far has centred on developing a case for responding to children in families who exist in chronic poverty. The evidence provided illustrates cases where inadequate income has resulted in children going without basic food necessities, medical assistance and foregoing school activities. Each suggests that additional income would relieve the stresses created, and enable greater consumption of the necessities of life. Before discussing how this could be achieved, the next section looks at responding to families with children who are not in chronic poverty, but because of changing circumstances are subjected to occasional poverty. The key point is that in providing regular and reliable income to help families respond positively to change, families are protected from succumbing to poverty.

4.3 CHANGING FAMILY CIRCUMSTANCES AND FINANCIAL INSTABILITY

Over recent years major socio-demographic and economic changes have created new risks affecting families. Increases in the proportion of single parent families have occurred, mainly due to marriage breakdown. For example, in 2004 the divorce rate (number of divorces per 1,000 estimated existing marriages) was 13.2, an increase from 5.1 in 1971 (Ministry of Women’s Affairs, 2005:4). Approximately 47 percent of all dissolved marriages involved parents with children under the age of 18 years (Statistics New Zealand, 2005b:1).

From the perspective of children, a change from living in a two-parent home to one based on a lone parent usually has negative financial consequences. Many parents facing such changes will go through a period of financial upheaval, with the custodial parent experiencing an irregular

income flow while separation agreements are sorted. Moreover, the ongoing cost for a separated couple of maintaining two homes is considerably greater than sharing a single home.

As it is usually the mother who has custody of children, it is primarily the mother's income which determines the financial wellbeing of children. Mothers raising children alone are expected to pay most of the costs of doing so. In general, because of low benefit levels, being on a state benefit by definition means living in poverty. Employed lone mothers are little better off since women's average annual incomes remain less than men's, while mothers earn significantly less than women without dependent children (Ang & Briar, 2005).

However, it is not only lone parent families that are vulnerable to periods of financial hardship. Unemployment and industry restructuring are also major causes of financial instability for all families in the current economic climate of insecure forms of employment. While businesses responding to the market employ more workers in times of buoyancy, workers are laid off in difficult times. The recent receivership of Feltex carpet manufacturers and the restructuring of Air New Zealand provide examples. To be successful today's workers need to be familiar with different forms of work, move from declining to growing industries, undertake retraining and take risks in establishing new businesses. Again each of these scenarios exposes families to financial upheavals and uncertainty.

To summarise, changes in family circumstances and employment status lead to financial uncertainty and instability which have the potential to result in occasional poverty. The policy implication is that families need reassurance that they will have a reliable and regular source of income if they are subjected to such changes.

4.4 CONCLUSION

The first part of this chapter has presented a case for a policy response to children's poverty and to protect those families with children who are exposed to changing circumstances leading to occasional poverty. In developing the case, statistics showing the extent of child poverty are provided. Evidence of negative outcomes for children who have suffered low living standards is also included.

This thesis argues that cash transfers to families would be an appropriate policy response. When mothers have little money left to purchase food, take a sick child to the doctor or allow a child to go on a school outing, cash transfers assist the purchase of such items. However, the poverty argument is not only about families who have chronically low living standards. It also

concerns those who are on the brink of poverty and so extremely vulnerable when life circumstances change. Two examples are coupled families becoming lone parent families and families undergoing changes in paid employment.

Establishing the need for cash transfers has been the first argument in this chapter. However, although it focused on families in poverty and those vulnerable to occasional poverty, the chapter is not arguing for means-tested benefits. Rather, it argues that a policy providing regular financial assistance to all families with dependent children is required. Universal child allowance is such a policy.

4.5 UNIVERSAL CHILD ALLOWANCE: AN APPROPRIATE POLICY RESPONSE

4.5.1 Introduction

Contemporary debates on the family poverty problem underline the importance of adequate social security benefits, mainly through a collective sharing of child costs (child allowances, advance maintenance payments and one-parent allowances). Evidently cash benefits are important. The market alone is insufficient to guarantee welfare. This is so because of unemployment, low wages or family events which could mean that earnings may not be sufficient to provide adequate income. When the state intervenes with generous and universal income transfers – as in Sweden – the poverty risk is greatly reduced. On the contrary, where transfers are mainly selective, on the basis of income or on the basis of employment status, anti-poverty effectiveness is lower (Solera, 2001:475).

This thesis argues in favour of a universal child allowance paid to the primary caregiver. In this chapter it is argued that children can fall into poverty for a variety of reasons. Universal child allowance is one effective safeguard against poverty that can be a cornerstone for a social security system.

A multitude of policies critical to addressing children's poverty exist. The one most commonly preferred by governments is that of encouraging labour market participation. To illustrate, since 1990 successive New Zealand Governments have adopted welfare regimes characterised by liberal policies. Within this context is the belief that economic growth will create new employment opportunities. Policy initiatives have, therefore, focused on moving individuals off welfare into paid employment. Those remaining within the welfare system, including low income families and lone parents, have been subjected to means-tested assistance.

Liberal approaches to family policies do not produce equitable outcomes and even discriminate against some family types. Policy regimes continue to emphasise the nuclear family and reflect

the breadwinner-caregiver dichotomy of the post-war welfare state (Parker & Patterson, 2003:1). Research consistently provides evidence, however, that family forms have changed as parents and children move in and out of different types of living arrangements.

As households change the ability of family members to assist other members in stressful times is reduced (Hancock, 2002:126). Very often such households become economically marginalised as statistics on the number of lone parents in poverty highlight. In other words, divorce within families, becoming a lone parent, exposure to periods of unemployment, the uncertainty associated with casual work and the need to take time out from employment during periods of retraining have resulted in an increasing number of impoverished families.

At the same time there is evidence that policies encouraging parents to return to paid employment, although important in the campaign against child poverty, have not always achieved equitable outcomes. This is particularly true in the context of the current labour market where anomalies mean that welfare to work policies are insufficient for lifting all families out of poverty, low wages remain inadequate to protect families from poverty and many jobs are short-term. Moreover, not all primary carers want to be in paid employment while their children are young.

This thesis argues that universal child allowance is an appropriate addition to labour market strategies to reduce child poverty. The case supporting universal child allowance includes examples of countries which have adopted universal child benefit as part of a generous integrated package and which are observed to have low rates of child poverty. The case concludes by looking at the successful application of universal child benefit in Britain as part of an integrated package to reduce child poverty.

4.5.2 Universal Child Allowance and Poverty Prevention

Universal Child Allowance Prevents Poverty from Occurring

The role of universal child allowance as a poverty reducing strategy has traditionally been thought of as providing poor families with additional financial resources. Universal child allowance, however, also has a role to play in preventing poverty. This is particular the case when families experience changing circumstances. Contemporary family life is characterised by change. Universal child allowance is a policy which reduces the risk of poverty in families experiencing change.

As we have seen families are vulnerable to poverty during parental separation and when coping with the uncertainties of the labour market. Although low income families are the most obvious casualties during periods of change, families from all income levels may at times be vulnerable to financial stress. All families have the potential to dissolve, and whatever the income prior to a dissolution the caring partner may be left with few financial resources until settlement is reached. In a similar manner all families have the potential to be exposed to fluctuating labour markets.

The continuity of universal child allowance, even when marital and employment circumstances change assists in reducing the potential of families to fall below the poverty line by adding to income when there are children to support. Depending on the magnitude of support, such reliable and regular income enables families to provide for their children, even when other sources of income no longer exist or are deferred.

Universal Child Allowance and the Poverty Trap Argument

An important attribute of universal child allowance is that, unlike means-tested welfare benefits, it does not cease or reduce when the recipient enters paid employment, increases the number of hours of paid work or receives a pay rise.

While means-tested benefits appear to be less demanding on the public purse, they have disadvantages which reinforce the popularity and practicality of universal benefits. One such disadvantage is that of the poverty trap or withdrawal of benefit income as earnings from paid employment increases. The poverty trap arises because of the relationship between an increase in earnings from paid employment, the ensuing increase in tax and a reduction in the eligibility level of means-tested benefits (Brown, 1983:87). While means-tested benefits raise the level of disposable income, the rate at which they are reduced as wages increase constitutes a marginal rate of tax greater than the standard rate of tax. When the poverty trap occurs, increased earnings advantage the family only to a limited extent.

There are three main reasons for criticising the poverty trap. First, it is unjust that low wage families are subjected to an excessive marginal rate of tax when efforts are made to increase disposable income through paid employment. Second, as efforts to increase disposable income produce only a slight increase in standard of living, it is only when the family earns sufficient to be free of means-tested benefits that the advantage of wage increases produce higher income. Third, the poverty trap is a disincentive to increase efforts to earn more through increased hours worked or securing a better paid job (Brown, 1983:89). The poverty trap contributes, therefore,

to long-term unemployment, feeding the culture of poverty that means-tested benefits were designed to prevent.

To summarise, the key point is that although universal child allowance is more demanding on the state welfare system, poverty traps are avoided. As a non means-tested payment it acts to reinforce the family's own efforts to raise its standard of living. As such universal child allowance has an important part to play in the transition from benefits to employment and increased hours of paid employment.

4.5.3 Universal Child Allowance and Overseas Evidence

Universal Child Allowance: A Component of Generous Social Spending

The following argument supporting universal child allowance is based on the observation that countries with generous social spending have relatively low levels of poverty. In each of these countries universal benefits including universal child allowance formed an important component of the spending package.

Sweden provides an example, with the Swedish income transfer system being particularly effective in reducing child poverty. For example, only 5.6 percent of employed sole parents, 8.2 percent of single earner families, 1.1 percent of dual earner families, 13.7 percent of non-employed families and 34.2 percent of non-employed sole parents live in poverty¹ (OECD, 2005b:136). Child allowance, a non-taxable transfer to all children aged less than 16 years, is perceived as the “cornerstone” of the Swedish welfare state (Solera, 1998:11). The allowance, equivalent in value to 6 percent of the median equivalent disposable income, is regarded as one of the policies underlying the success of child poverty eradication in Sweden. Not only are all families with dependent children recipients, but the actual amount received is relatively generous.

The recently published UNICEF Innocenti Report Card exploring child poverty in 26 OECD countries also emphasised the importance of adequate income transfers. While acknowledging that variations in poverty levels reflected diverse national policies interacting with social changes and market forces, the Report also reinforced the premise that the greater the proportion of GDP devoted to family benefits the lower the risk of child poverty (UNICEF, 2005:5). For example, United States and Mexico, with poverty rates over 20 percent, spent less than 5

¹ The poverty threshold adopted is 50 percent of median income.

percent of GDP on social spending. Moreover, such spending was selective in type. At the top of the child poverty prevention league table were Denmark, Finland, Norway and Sweden. Each of these countries had expenditure rates on universal and selective social transfers between 10 and 15 percent of GDP, with total average child poverty rates below 5 percent (UNICEF, 2005:23).

While it is logical that countries redistributing a greater percentage of their national income would have lower relative poverty rates, UNICEF's analysis was more revealing. It demonstrated that the priorities governing the allocation of spending were as important as the actual level of spending (UNICEF, 2005). This included the degree of universality in the distribution of funds and the varying contexts in which funds were dispersed. To illustrate, although 10 of the countries reviewed allocated between 7 and 10 percent of GDP to social transfers, child poverty rates varied from 7.3 percent in France to 16.3 percent in New Zealand². Given the variations in universality and targeting among the ten countries, the results were not surprising. Hence it is likely that differences in levels of child poverty resulted from varying social expenditure priorities including whether distributions were universal or selective as well as the overall level of social spending (UNICEF, 2005:26).

The importance of universal child benefit programmes for reducing child poverty was also highlighted by Immervoll, Sutherland & de Vos (2001) who explored the role of universal family benefit in protecting children from financial poverty. Using data from the European Community Household Panel (ECHP) their analysis was based on calculations of the effect on household incomes of removing child benefit. The researchers identified a number of countries, including Austria, Belgium, France, the Netherlands and the United Kingdom, where universal child benefit was relatively large and appeared successful in reducing child poverty. If universal child benefit was removed, the authors concluded that poverty rates would rise significantly both in absolute and proportional terms (Immervoll et al, 2001:413). While this group of countries illustrated the point that universal child benefit was effective in reducing poverty, to maximise its potential the allowance needed to be of reasonable value.

² The poverty line used is 50 percent of medium post-tax and transfer income.

4.6 UNIVERSAL CHILD BENEFIT: A CASE STUDY OF BRITAIN

4.6.1 Introduction

As a final measure in arguing the case for universal child allowance as a policy to prevent children's poverty, the policies adopted by Britain are examined. British policies which include a universal child benefit have been successful in reducing child poverty, and provide some important lessons for New Zealand.

4.6.2 The Policy Environment

During the 1980s New Zealand and Britain had the unfortunate distinction of leading the world in the growth of income inequality and increasing child poverty (Barclay, 1994). For example, between 1979 and 1997 British child poverty tripled from 11 to 34 percent (Piachaud & Sutherland, 2001a:95). In New Zealand during the period 1988 to 2001 child poverty doubled from 15 to 29 percent (Ministry of Social Development, 2003:66). By 2004, however, the United Kingdom neared its first planned 5 year poverty reduction target, with the rate declining to 24 percent (Brewer 2004). As we saw earlier, the New Zealand child poverty rate has also declined, but not to the same extent as in Britain.

Given the similarities in economic, political and social contexts between Britain and New Zealand, the contrasting child poverty outcomes are particularly notable (Orange, 2004:1). Although there are differences in geography, scale, historical context and electoral systems, both countries have similar political regimes. To illustrate, applying Esping-Andersen's (1990) *Three World's of Welfare Capitalism*, United Kingdom and New Zealand can be classified as liberal regimes emphasising means-tested social assistance over universal distribution. In terms of revenue and expenditure, both countries have relatively similar profiles. For example, New Zealand's revenue, equal to 40.5 percent of GDP, neared the middle of the OECD range, with the United Kingdom nearby at 39.8 percent. Public spending in New Zealand was 36.4 percent of GDP, while the United Kingdom was 37.7 percent (OECD, 2002a).

Some differences, however, have emerged. While the Blair Government was slow to instigate child poverty reduction policies, it went on to make a concerted effort. The New Zealand Government was less focused. To illustrate, prior to the 2004 Budget the New Zealand Government had taken minimal action to change existing policies, while child poverty increased unabated. In contrast, the British Government had implemented two phases of policy

innovation resulting in more generous assistance, less tightly targeted assistance and less discrimination against parental employment status (Orange, 2004:2).

4.6.3 Contrasting Policies

The principal measures adopted in Britain can be divided into three categories. The first involved policies which altered income levels through the tax and benefit system. The aim was to provide direct financial assistance to all families, effectively recognising the extra costs of children. Extra resources were also targeted to those most in need. The second category included policies promoting paid employment. The underlying philosophy was that paid work was the best long-term route to financial independence for families. The third category included measures to assist those who had been in long-term poverty (Piachaud & Sutherland, 2001a:97). A summary of these policies follows.

After the 1997 election of the British Labour Government, the ending of child poverty became a major government priority. Statistics relevant to the 1997/98 year showed that 14 million people were living below the mean level of income of whom 4.5 million or one in three were children (Piachaud & Sutherland, 2001a:95). Government objectives included the goal to halve child poverty within 10 years. A more immediate goal was to reduce child poverty by 25 percent by 2004 (Piachaud & Sutherland, 2001b:71). The following quote from Prime Minister Blair provides evidence of the Government's commitment to end poverty.

Our historic aim will be for ours to be the first generation to end child poverty, and it will take a generation. It is a 20 year mission but I believe it can be done (Blair, 1999:17).

The initial wave of policy changes involved introducing four key income-focused innovations. The first involved universal child benefit which was increased in real terms by 29 percent for the first child and 5 percent for second and subsequent children (Piachaud & Sutherland, 2001a:101). The increase secured the role of universal child benefit in the British child assistance package (Orange, 2004:14). The second measure was to replace the Married Couples Allowance for standard rate taxpayers with a Children's Tax Credit. This was paid to low-income tax-paying families with children at a rate of £10 per week. The third policy change, although more controversial, involved replacing the Family Credit with the Working Families Tax Credit. The Credit was available to families with dependent children where one parent fulfilled specified work requirements. As the Tax Credit aimed to reward paid employment, critics questioned discriminating against poor children based on their parent's actions (Orange,

2004:14). As we have seen the overall impact of these measures on Britain's child poverty rate was impressive.

Although the New Zealand Government had been in power for a shorter period of time than Britain's Labour Government, by mid 2001 it had not introduced any significant moves to reduce child poverty. The main policies for providing family income assistance remained income support and the four child focused tax credits³. Child specific innovations indirectly assisting child poverty included the Out of School Care and Recreation (OSCAR) programme⁴, easing the abatement rates on income support, increasing the minimum wage and introducing a points system for the allocation of state housing (Orange, 2004:15).

In summarising the period to 2001, both New Zealand and Britain's family financial assistance policies shared common elements. Each paid to parents, regardless of their employment status, a general children's tax credit. Both had in-work children's tax credits as well as additional income support based on the number of dependent children. However, the most significant difference between the two countries was Britain's continuing provision of a universal child benefit paid to all families with children. In demonstrating the generosity of Britain's child benefit package, Bradshaw & Finch (2002) concluded that in Britain universal child benefit accounted for an average of 30 percent of the difference in family income compared to the childless equivalent. In comparison, New Zealand's policy included a targeted Family Tax Credit, previously termed Guaranteed Minimum Family Income. Its very existence was an admission that family financial assistance was insufficient to ensure that a family achieved a basic subsistence income (Orange, 2004:16).

Since 2001 the British Government has retained a universal child benefit, but replaced its tax credit regime with a single seamless system of family support (HM Treasury, 2001:18). The key element of the policy is the creation of a single Integrated Child Credit (ICC) aimed at reducing the distinction between in-work and out-of-work families. The ICC collectively replaces the Children's Tax Credit, the children's rates of Income Support, Jobseeker's Allowance, Disabled Person's Tax Credit and the Working Families Tax Credit. Although the ICC is non-universal, it can be accessed at some level by the majority of families, an approach referred to by the Blair Government as "*the doctrine of progressive universalism*" (Green, 2005:4).

³ Child focused tax credits included Family Support Tax Credit established 1986, Family Tax Credit also established 1986, Child Tax Credit established 1996, and Parental Tax Credit established 1998.

⁴ The OSCAR programme provided low income households with a subsidy for the cost of after school care for children aged 5 to 13 years.

In Britain, while all families with dependent children benefit, the poor benefit most by combining targeting and universalism in a simplified system of layered levels of support. Every household with an income below a certain level receives the same entitlement which policy-makers claim is comparable to the cost of bringing up a child (Joseph Rowntree Foundation, 2000:13). Middle income parents also receive a flat amount, although less, while high income earners receive only universal child benefit. In terms of middle and high income families, the amount is intended to contribute rather than cover the costs of children. Having made an ambitious pledge to end child poverty, and having introduced new policy initiatives to achieve this, recent statistics show that child poverty has been reduced from one in three to one in four children. That is, since 1999 700,000 children have been lifted over the poverty threshold (Green, 2005:4).

In comparison, the New Zealand Government has retained its stance on means-tested family financial assistance, with the main policy instruments being Family Support and the In-work Payment. The announcement in the 2004 Budget of the Working for Families package was welcomed and was an important start in alleviating child poverty. The package increased the generosity of state support and softened the targeting of state support for families. This was evidenced by the three year schedule of increases in Family Support and the abatement thresholds. However, in the absence of universal child allowance, comparative research suggests that the ultimate success of New Zealand's means-tested family policies is unlikely to reduce poverty to the same degree achieved by family policies in Britain.

4.7 CONCLUSION

This chapter presents a case for universal child allowance as a policy response to persistent child poverty in New Zealand. Two arguments form the basis of the case: the importance of providing cash transfers to families in chronic poverty and those exposed to occasional poverty, and the need for transfers to be available to all families with dependent children.

Contemporary debates on the solution to child poverty acknowledge the anti-poverty role of employment policies. However, in many cases the market alone is insufficient to guarantee child wellbeing. The emphasis on mother's unpaid work, family responsibilities that interfere with full time employment, changes in family circumstances, a constantly changing labour market, low wages, benefit abatement rates creating poverty traps and the movement of parents from benefits to work frequently result in insufficient household earnings to ensure families remain above the poverty threshold.

This thesis argues that universal child allowance is also an important poverty reducing policy. As a universal payment it is characterised by properties which reinforce its poverty reducing capabilities. Its reliability and regularity as well as its ability to counter the disincentive effect of poverty traps are attributes which make universal child allowance a family friendly policy. Moreover, the certainty and regularity of universal child allowance make it an important source of income for families exposed to changes in personal circumstances and employment status. It is clear that universal child allowance could not fulfil these functions if it was a means-tested benefit. The underlying key to its success is its universality; it is available when it is needed not when the carer proves her or his eligibility. As Brown (1988) argues:

It is not affected by rules intended for adults or subject to delays or withdrawals or reductions. It is there in payment, and will continue to be so throughout the period of insecurity and beyond (Brown, 1988:50).

International research underlines the importance of collectively sharing the costs of children through generous cash transfers. When the state intervenes with a combination of universal and means-tested income transfers, as the examples of Sweden, Denmark, Finland and Norway clearly show, the risk of poverty is reduced. By contrast, where transfers are purely selective anti-poverty effectiveness is reduced.

Analysis of British policies, where child poverty has been clearly prioritised, provides practical lessons for New Zealand policy-makers. In reversing the trend of rising poverty, the British Government introduced a financial assistance package that was more generous and less tightly targeted than that of New Zealand. The overwhelming contrasting feature was the role of a boosted universal child benefit which had no policy equivalent in New Zealand. In a second phase the government focused on creating a single seamless system of support for families. The Integrated Child Credit provided much increased support for families with children regardless of the work or benefit status of adults. Unlike New Zealand's In-work Payment, British children whose parents were not in work were not penalised.

The latest move by the New Zealand Government involving the introduction of the Working for Families package shows recognition of the reality of child poverty and the need to reduce it through child-focused policies. However, in the absence of a universal child allowance, but the continuing obsession with incentives to encourage parents into paid employment, it is questionable whether the government will match Britain's reduction in child poverty. In particular, because Working for Families is selective, it creates poverty traps. A universal child allowance would make it easier for families to work their way out poverty.

To conclude, ending child poverty and improving the opportunities for every child calls for government redistribution towards all children. Abolishing child poverty necessitates governments to take a lead in promoting the best interests of children across the board. To achieve this, improving the income level of families through a universal child allowance is an essential component of improving outcomes for children. Evidence for such a claim has been provided by analysing the policies of a number of enlightened governments who have recognised that there are potential long-term economic gains to be made when nations invest income in children through universal benefits. The following quote by Korpi & Palme (1998) summarises the tone of the chapter.

To paraphrase an old saying, if we attempt to fight the war on poverty through target-efficient benefits concentrated on the poor, we may win some battles, but we will probably lose the war (Korpi & Palme, 1998:683).

CHAPTER 5

PREVENTING MOTHERS' POVERTY AND EMPOWERING WOMEN WITH UNIVERSAL CHILD ALLOWANCE

5.1 INTRODUCTION

There is a clear connection between poverty of women and the poverty of children. Of course many men are in the poverty picture too; as the suicide rate suggests, life is anything but rosy for many young men. But we just can't avoid the fact that poor mothers and child poverty are inescapably tied together. With 29% of all children and 66%⁵ of the children of sole parents (who are mainly women) below the poverty line something is terribly wrong (St John, 2005a:1).

In addition to child poverty, there is also a case for universal child allowances as a response to mothers' poverty. This thesis argues that an understanding of children's poverty can only be gained by also looking at mothers' poverty. In general, mothers are the primary carers of children. They also tend to be the managers of poverty within families. Therefore, children's wellbeing and their future life-chances depend on the wellbeing of mothers. As Lister argues, "women's poverty matters. It matters because of the effects on women themselves and because of the effects on their children" (Women's Budget Group, 2005:2).

The case for universal child allowances as a precaution against mothers' poverty is based on several themes. The first part of this chapter establishes the extent and reasons for why mothers' poverty exists in New Zealand. Several issues are associated with mothers' poverty including the inequitable sharing of household resources, the effect of inadequate resources on mothers' ability to spend on children, the impact of the stresses of poverty on mothers' health and the difficulty of impoverished mothers to be effective parents. All of these issues are discussed.

The second part of this chapter looks at how universal child allowances can prevent mothers' poverty and empower mothers. Universal child allowances achieve these objectives because they recognise the transitory nature of 21st century families, offset inequality of financial resources within households and provide a reliable and regular payment for mothers to be spent on children's needs.

⁵ These statistics are based on 2001 published data.

5.2 EVIDENCE OF MOTHERS' POVERTY

Both European and United States research show that women face a greater degree of poverty than men, with the gender disparity being most visible among female-headed households (Daly & Rake, 2003; Bradshaw, Finch, Kemp, Mayhew & Williams, 2003). In terms of New Zealand, official statistics most often measure total household income. Therefore, data illustrating the extent of mothers' poverty is difficult to obtain. Proxy measures are available, however, and provide an insight into the poverty of New Zealand mothers.

One reason for women's lower disposable income is women's responsibility for unpaid work. Mothers continue to be primary caregivers. For example, in 2000 in two parent families with a child less than 6 years, women spent on average 3.15 hours per day tending to unpaid work. In comparison, men spent an average of 1.20 hours (OECD, 2004b:73). The time-consuming but unpaid domestic responsibilities of women contribute to their living in poverty.

Another factor is a labour market which discriminates against female workers (Sidel, 1991:38). Women constitute the majority of low paid workers. For example, in 2005 the median hourly wage for New Zealand female employees was \$15 compared with \$17.50 for men (Ministry of Social Development, 2006:50). Moreover, lower hourly earnings, lower participation levels and fewer hours of paid employment have meant that average weekly income for women is less. For example, in June 2004 average weekly income from wages and salaries was \$262 for New Zealand women and \$439 for men (Ministry of Women's Affairs, 2005:15). In the majority of New Zealand households, wives earn less than their husbands. For example, female spouses earn on average less than 18 percent of the income of their male partner (OECD, 2004b: 74). In addition, mothers earn less than non-mothers.

A further contributing factor to mothers' poverty is the rapid growth in female-headed families combined with current approaches to family policy which discriminate against such households and lead to inequitable outcomes (Parker & Patterson, 2003:1). To illustrate, coinciding with changes in families have been changes in the relationship between families and the state. Recent decades have seen New Zealand adopt a policy environment characterised by liberal welfare regimes emphasising means-tested benefits and individual responsibility. Effectively, targeted benefits have been aimed at rewarding the working poor and encouraging those on benefits toward paid work. Moreover, the costs of raising children have been privatised through cuts to benefit rates and the tightening of entitlement criteria. Such policies obscure the gendered nature of parenting and fail to recognise that family life is increasingly transitory (Parker & Patterson, 2003:5).

When combined with a neo-liberal approach to policy, the separation of parents frequently leads to increased poverty. Women lone parents are particularly disadvantaged. For example, in 2004 43 percent of children in lone parent families were living with a parent whose net-of-housing-cost income was below the 60 percent line. Moreover, 24.4 percent of all families with dependent children were female lone parent families, while only 4.8 percent were male (Ministry of Social Development, 2005:19). As Parker & Patterson (2003:1) state "*becoming a lone parent continues to be particularly risky for women, and the associated poverty remains a peculiarly female predicament*".

5.3 ISSUES ASSOCIATED WITH MOTHERS' POVERTY

5.3.1. Introduction

Within the context of the care of children, numerous issues associated with mothers' poverty exist (Women's Budget Group, 2005). These include financial hardship experienced by mothers, greater proportion of children's costs being met by mothers, the impact of the stresses of poverty on mothers' health and the impact poor health has on mothers' parenting skills. These issues reinforce the need for a policy response to mothers' poverty in a similar manner to that of children's poverty. The issues are presented below.

5.3.2 Greater Financial Hardship Experienced by Mothers

Introduction

The first issue centres on the notion that within some families mothers experience greater financial deprivation than other household members. Particularly in low income families, mothers often try to ensure that the needs of children are met first. This means that they may go without nutritious food, warm clothing or adequate sleep (Goode, Callender & Lister, 1998:36; Farrell & O'Connor, 2003:44; Middleton, Ashworth & Braithwaite, 1997, cited in Adelman, Middleton & Ashworth, 2002:5).

It is also common for mothers to consume fewer household resources than their male partners. This occurs in both poor and better-off households, and is associated with women's economic dependence and male power. Indeed, many mothers experience poverty even in households where the main earner has a good income. The fact that fathers are normally the larger earners within families provides them with power and privilege and disempowers mothers. Such poverty, referred to as "hidden poverty", results from the unequal distribution of both income

and consumption within families (Lister, 2004:57). Mothers are more likely to be financially deprived when household resources are not allocated fairly.

Women's economic dependence is the price paid for caring within a gendered division of labour where men do the greater share of paid employment, while women take responsibility for unpaid domestic work (Lister, 2004:57). Even when resources are shared fairly, a mother who has insufficient income of her own to meet both her and her children's needs is vulnerable to poverty. This is particularly true if she is reliant on the discretion of her partner or if the relationship breaks down. The following provides a more detailed discussion of the lack of income sharing within families.

Evidence of Intra-household Income Inequality in New Zealand

Evidence from a variety of international studies suggested intrahousehold resources were not shared equitably (Pahl, 1980, 1983, 1986, 1989; Vogler, 1994; Vogler & Pahl, 1993, 1994; Lister, Goode & Callender, 1999). The studies highlighted the hidden world of gendered implications of intra-family income distribution. Much of the evidence concluded that differences existed between husbands and wives in the management and control of money. Moreover, other research suggested it was the principal carer, frequently the mother, who spent most on children. It followed, therefore, that if mothers did not receive adequate resources to pay for the cost of raising children and it was their responsibility to spend on children, both children and mothers suffered.

An insight into the lack of income sharing within New Zealand families was provided by a small scale study, referred to as the "*Intrafamily Income and Resource Allocation Study*", undertaken by researchers in the early 1990s. Its purpose was to determine whether family income could be used as an accurate measure of individual family member's access to economic resources (Fleming & Easting, 1994:6). In particular, researchers wanted to determine if a couple's total income was available to each individual and whether it was shared equitably.

Applying Pahl's (1989) model of money management and control⁶, researchers produced a modified version based on the practices of New Zealand couples within three ethnic groups: Pakeha, Maori and Pacific peoples. Analysis of the project's results showed that the combined income of couples did not always form an accurate indicator of the money available to each

⁶ Based on her research Pahl (1989) identified four patterns of money management which were linked to the allocation of resources and power in decision-making. The main money allocative systems identified were the whole wage, the allowance system, pooling, and independent management.

parent. Rather, access to money varied according to ethnicity, gender, the level of household income and the different value systems operating within families.

Some interesting results emerged from the study. Although pooling⁷ was the most popular money allocation system, when data was examined researchers found that only a small percentage kept all their money in joint accounts accessible to both partners (Fleming, 1997: 28). Even then evidence indicating a pooling arrangement often disguised situations in which access was not equal. This was particularly the case for Pakeha couples where, although their income was deposited into a joint account, the cheque book was in the husband's control with the wife receiving one weekly cheque of a set upper limit (Easting & Fleming, 1994:18).

The following four broad conclusions were derived from the New Zealand study (Ministry of Social Development, 2004:46): total family income was not always an indicator of the access to resources of individual members, people brought different principles and values to the issue of access to family income, more women than men managed the household money but did not control its distribution and access to money was affected by ethnicity, gender, income level and whether the family included children with absent parents.

Although it is difficult to apply general conclusions to the whole population, previous New Zealand quantitative research suggested that five to ten percent of women in couples had very restricted access to money. For example, the New Zealand study carried out by the Society for Research on Women (1981) reported that 9 percent of women interviewed lived in a relationship where the husband controlled the household finance and was restrictive in distributing it.

The Implications of Limited Access to Family Income for Children and Mothers

Both the international and New Zealand evidence highlighted the point that it was misleading to regard two parent families as a single economic unit. If family income was not always pooled, then it was an imperfect measure of the income available to every household member. It was also misleading to suggest that the welfare of individual members could be determined by reference to family income. If mothers did not have access to their husband/partner's income, secondary poverty could result (Rowntree, cited in Pahl, 1989).

⁷ The pooling system involved income paid into a joint account, with both partners having access.

In determining the policy implications of the findings, two points are highlighted. First, within families the principle wage earner tends to be a male parent, while the mother is most often the primary carer. For example, in 2001 28 percent of all New Zealand families with dependent children comprised two parent families where the father was in paid employment and mother remained at home. Only 2.5 percent had a female parent as the main income earner with the father staying at home (Ministry of Social Development, 2004:49). Even though the number of mothers in part-time employment is increasing, women continue to be the primary carers. It follows that in families experiencing an unequal distribution of resources, it is likely to be the mother as the “stay at home” caregiver who is disadvantaged.

It is not only mothers who suffer when their disposable incomes are inadequate. Children are also affected, and in households where the income is not fairly shared they too suffer hidden poverty. This is because mothers are more likely than fathers to spend income on children. A number of studies carried out in industrialised nations show that it makes a difference to the children which parent controls the income (Browning, Bourguignon, Chiappori & Lechene, 1994; Lundberg, Pollak & Wales, 1997 and Phipps & Burton, 1998).

The study carried out by Lundberg et al was particularly revealing, and showed that the pattern of income distribution within the household had a significant effect on family expenditure patterns. The findings were consistent with the notion that children do better when mothers control a larger proportion of family resources. To illustrate, the research based on a “*natural experiment*” concerned a 1970s policy change to the British universal child allowance scheme. The previous scheme, consisting of a reduction in the tax withheld from the father’s pay cheque, was replaced with a cash payment to the mother, resulting in a substantial redistribution of income. To determine whether a change in spending patterns resulted, the researchers focused on child clothing expenditures (Lundberg et al, 1997:468). They conjectured that children’s clothing was of greater interest to mothers and, therefore, spending would increase as a result of the policy change. The research findings conclusively showed this to be the case (Lundberg et al, 1997:479).

Further supporting evidence that children gain from mother’s control of family finances was provided by Lister et al (1999). Their 1997 research of 31 low income families examined the impact on individual wellbeing of paying means-tested benefits to fathers or mothers (Goode et al, 1998:ix). The results paralleled prior research and showed that benefits for children were more likely to be spent on children if channelled directly to the mother (Goode et al, 1998:105).

To summarise, evidence cited showed that family income, even when it appeared adequate to support a family, was not always pooled and shared between household members. Evidence also showed that fathers tended to be the main income earners in two parent households, while mothers were responsible for the care of children. Moreover, it was mothers who were responsible for spending on children. It followed, therefore, that if fathers failed to share adequate financial resources with mothers and mothers spent most on children, not only did mothers suffer but also their children.

5.3.3 Mothers' Poverty Leads to Poor Health

Another issue associated with mothers' poverty concerns the stress from juggling inadequate income in a continuing struggle to survive and meet expenses. While many mothers are resourceful, the stress of managing poverty leads to physical and mental illness (Goode et al, 1998; Ghate & Hazel, 2002; Lister, 2004).

A number of researchers have identified an association between female poverty and ill-health (Vegeris & Perry, 2003; Barnes & Willits, 2004; Casebourne & Britton, 2004). Further evidence is provided by Marsh & Rowlingson (2002) whose research of British families with children concluded that poor health combined with financial hardship led to low morale. Moreover, a recent British Report "*Mental Health and Social Exclusion*" noted that levels of depression were highest among mothers of young children and lone parents living in poverty. The Report suggested that 28 percent of parents experienced mental health problems (Social Exclusion Unit, 2004:75). Poor mental health is in turn associated with lower income, and so the spiral continues.

5.3.4 Mothers' Poverty and Parenting Skills

Mothers' poverty and resulting poor health have implications for child poverty in relation to mothers' parenting skills. Parenting can be thought of as a mediating role between the stresses of adult society and the way that children develop (Utting, 1995:51). The key point is that stresses affect parent's ability to carry out the parental role. Lister puts it clearly:

...the stress of managing poverty can have a damaging impact on mothers' physical and mental health, which in turn adversely affects their morale and overall wellbeing. There is a vicious circle here: mothers struggle to do their best by their children and to protect them from the worst effects of poverty. The cost of doing so in terms of their own health and morale is likely to undermine their parental capacities and make it harder to give their children the kind of childhood and upbringing they would want. This in turn could have implications for the ability of their children to escape poverty

as they grow up. The links are particularly strong for lone mothers but may work in different ways for mothers in couples who lack economic autonomy, some of whom may feel themselves to be trapped in abusive relationships (Lister writing in Women's Budget Group, 2005:7).

A number of studies have demonstrated how the stresses of poverty undermine parental capacities, with the result that survival strategies override attention to individual children's needs⁸. In terms of their own research, Ghate & Hazel (2002) reported the following:

Material poverty – low income, poor neighbourhoods, bad housing – was the permanent backdrop to the lives of most families who were part of this study. It was clear that a great deal of 'coping energy' was expended in dealing with the challenges this presented although, by and large, parents claimed success in this respect. However, it is not unreasonable to speculate that when parents are faced with other problems – a difficult, tiring child, fatigue and emotional stress and so on – on top of the demands already presented by raising a family in conditions of material poverty, they may have rather depleted personal resources upon which to draw. It was clear from our data that the individual costs of a constant struggle against multiple adversity could be substantial, characterised for many by high levels of emotional and physical stress, depression, fatigue and occasional feelings of depression (Ghate & Hazel, 2002: 216).

In concluding their research, Ghate & Hazel made an important point; material poverty is at the heart of the problem, not the lack of parenting skills. Although governments acknowledge the impact of poverty on parenting, too frequently the policy lesson drawn is the need for more parenting support services. In reality, the lesson is that more needs to be done to confront material poverty in its own right.

5.3.5 Conclusion

Reasons for why addressing mothers' poverty is critical to the success of a child poverty strategy have been outlined. Both the future and current wellbeing of children are dependent on the wellbeing of the principal carer, typically the mother. The commentary provides evidence that some mothers within two parent households are deprived of adequate income to meet their own needs and those of their children.

Evidence has been also provided to suggest that financial hardship has the potential to impact on mothers' physical and mental health. The stress of poor health in turn affects mothers' ability to be effective parents.

⁸ See Ghate and Hazel (2002:63) for a list of references.

5.4 UNIVERSAL CHILD ALLOWANCE: A RESPONSE TO MOTHERS' POVERTY

5.4.1. Introduction

This thesis argues that paying universal child allowance to the primary carer, commonly the mother, is by implication a means to alleviate mothers' poverty. Mothers may be poor for several reasons. If living as a couple or in a partnership relationship, it is usually mothers who take primary responsibility for the unpaid care of children and are unlikely to work or only work part-time. When household income is not shared equitably, mothers have little income to meet their own expenses and those of their children. Mothers in single parent households, as we have seen, are particularly likely to be poor whether employed or not. Universal child allowance would be of great assistance in lifting them and their children out of poverty.

Payment of universal child allowance to the primary caregiver, commonly the mother, reflects the changing nature of many families. It also recognises that income within families is not always shared yet it is mothers who are poverty managers and take the main responsibility for spending on children. Providing mothers with regular and reliable income is a means of empowering women. The following discussion looks at each of these arguments.

5.4.2 Universal Child Allowance Caters for Diverse and Changing Family Arrangements

Universal child allowance is a suitable payment to families because it recognises the diversity and changing nature of family living arrangements. For example, as we have seen the number of lone parent households has increased over recent decades and is now a common feature of family life.

Because universal child allowance focuses on children and is paid to the caring parent on behalf of the child, it follows the child through changes in the family unit. There is no necessity for a new claim to be filed as partnership status changed. In this regard, universal child allowance provides regular monetary assistance and does not cease or have to be reapplied for at times of a change in family status. It only ends when the child reaches the upper age limit.

5.4.3 Universal Child Allowance Offsets the Inequality of Household Income

It was also disconcerting to realise how many women are still dependent on the \$6 per child for their independence and even their dignity. Many women in one income families are still in a position where they have no money of their own. They don't receive an allowance above housekeeping money, their husbands control the family

finances and they have to justify every additional cent (Comment made by respondent to New Zealand Women's Weekly Survey, Parker, 1988:16).

Universal child allowance is one of the few policies that recognise that income may not be distributed evenly within families (Mesa-Lago, 1989:22). One of the key facets of universal child allowance is its payment to the main caregiver (mothers) rather than being paid into a general household account. As such it is perceived as an insurance against the deprivation of carers and children if the principal earner does not provide adequately (Hedges & Hyatt, 1985:42). Such circumstances can arise even when total household income is above the poverty threshold. However, universal child allowance does not discriminate between the wives of poorly paid and well paid husbands/partners. As a cash payment to the primary carer (mother) rather than a tax credit to the primary earner (father), universal child allowance recognises that even well off households have members who also experience a shortage of income.

Payment to the primary caregiver (mothers) is also recognition of mothers' propensity to spend on children. It follows that if mothers do not receive adequate resources to pay for the cost of raising children, ultimately the children suffer. These points are cardinal to understanding how universal child allowance is perceived and used, and for many caregivers is the main argument for its existence.

Reinforcing this facet of universal child allowance Virginia Bottomley, a researcher who later became a British Member of Parliament, produced a study of 28 low income London families on their attitudes to universal child benefit. While her 1971 British study is now 35 years old, the findings are still relevant. In respect of payment to mothers, findings supported the premise that universal child benefit played a key role in ensuring adequate provision for children and in reducing financial inequalities between parents (Walsh & Lister, 1985:15).

New Zealand research by Fleming & Easting (1994) recorded similar findings. Some of the women interviewed referred to the demise of the former universal family benefit. Despite its low level, it was described as a source of women's income which was identifiably different from other sources and traditionally controlled by women (Fleming & Easting, 1994:44). The research suggested that the universal delivery of even a small allowance to assist with the costs of raising children was a successful mechanism from the women's perception. It enabled women to control a small part of family income ensuring that it did get spent on the children.

5.4.4 Universal Child Allowance and the Empowerment of Women

In 2000 the United Nations developed eight Millennium Development Goals, with the objective of agreed countries and development agencies achieving them by 2015. Two of the Goals are relevant to the thesis: eradicating poverty and empowering women (United Nations, 2005).

As we have seen, mothers tend to be the primary carers of children with any form of paid employment usually only part-time. In contrast, fathers continue to be the primary breadwinner. As the larger earner they are provided with greater power within households, while the lack of financial resources tends to disempower mothers.

This thesis argues that universal child allowance paid to the primary caregiver, commonly mothers, is one means of addressing the issue of mothers' disempowerment, and would indicate the New Zealand Government's determination to achieve the two Millennium Goals. Empowerment of mothers would be achieved because universal child allowance would have the affect of providing carers with financial security and, therefore, independence. Poverty would be reduced because many mothers would be provided with extra income.

There are a number of international studies showing that universal child allowance contributes to mothers' independence in situations where they are provided with insufficient funds. To illustrate, in 1984 an in-depth qualitative study of recipient's attitudes to universal child benefit was commissioned by the British Department of Health and Social Security (DHSS). Parents stressed that one of the more important reasons for child benefit was to provide "*a needed reserve for immediate use at the discretion of the wife and mother*" (Hedges & Hyatt, 1985:6). While this was considered to be of practical importance, it was also considered psychologically important. As Hedges & Hyatt (1985:45) argued, it was the one source of funds completely under the mother's control and for which she was not directly accountable to the main earner. Such independence had important operational consequences by providing flexibility to meet extra needs without having to negotiate extra money. It also provided a psychological sense of empowerment by creating a feeling that universal child benefit was mother's money to spend at her discretion. The following quote is taken from the survey:

I suppose having had my children later on in life, I've very much missed having my own income. And it's the only bit of money that doesn't come from my husband. It all goes on the children. And I'm sure it must be important to lots of children (C2DE/Nptn/Both cited in Hedges & Hyatt, 1985:45).

A British study, conducted in 1985 by the Child Poverty Action Group UK Ltd (CPAG) and in response to a Government Green Paper “*Reform of Social Security*”, concluded that universal child benefit was extremely popular with mothers. In fact the findings provided a strong endorsement of the case for an adequate child benefit to be paid to all children. The aim of the CPAG survey was to gather opinions from mothers, through out England and Wales, on their attitudes to universal child benefit. In particular, CPAG wanted to find out what the benefit was spent on and what it meant to those mothers receiving it. The study, with 2000 participants, revealed an overwhelming support for the universal child benefit scheme, with 93 percent of mothers interviewed claiming that it was “important” in meeting the needs of their children. Moreover, 75 percent said it was “very important” or “essential” (Walsh & Lister, 1985:27). Several informative comments were made by those involved in the study. Many of these expressed the importance of universal child benefit as a regular payment made directly to the caring parent, in most cases the woman. Over 75 percent of the respondents emphasised the importance of universal child benefit because it provided a source of independent income which could be relied on without the need to ask a partner, a perception epitomised by the following comment:

I think it essential that child benefit be maintained for those on very low incomes. However, even in families where the husband's income would appear more than sufficient, it does not mean to say that the wife and children have an adequate portion of it. At least child benefit gives the mother a little bit of income and independence (Interviewee 1984 CPAG Study, cited in Walsh & Lister, 1985:10).

The following are additional comments from the CPAG study illustrating why mothers emphasised the importance of universal child benefit as a regular source of income paid directly to them. Women’s employment status appeared to have little impact on the importance of the regularity of universal child benefit. This was a reflection on the insecurity of employment, particularly part time employment in which many of the mothers in the sample were engaged.

It would be a serious mistake to consider basing child benefit on a family's income – it is the one thing payable to me for my children that my husband has no control over. Very important in many households – if you are thinking of the children as of prime importance (Mother of two, Surrey, cited in Walsh & Lister, 1985:30).

Child benefit should be the right of every mother no matter what her income or, more importantly, no matter what her partner's income is. For many of us, child benefit is the only money we have that we do not have to ask our husbands for (Mother of two, Hampshire cited in Walsh & Lister, 1985:31).

Child benefit is my only income in my own right. It is therefore essential that I should receive it, in order to maintain some self esteem and feel that I can contribute to my family's well-being (Mother of one, Avon, cited in Walsh & Lister, 1985:31).

5.5 CONCLUSION

In ensuring the wellbeing of children, it is also important to ensure the wellbeing of mothers. The poverty of children is also mothers' poverty. The majority of primary carers of children are mothers. They also tend to be the managers of money within families.

Financial assistance policies must address the connections between women's and children's poverty. The thesis argues that universal child allowance, by providing a regular and reliable source of additional income when mothers are juggling limited financial resources or sacrificing their own needs to meet expenses, recognises that children's poverty is also mothers' poverty.

Universal allowance is also a policy that recognises the ways in which liberal welfare policies have failed families, particularly lone parent families headed by women. As universal child allowance follows the child when family living arrangements change, the caring partner continues to receive regular income and, therefore, is able to meet the ongoing costs of children.

The various studies cited establish the popularity of universal child benefit as a source of income available for spending on children. Moreover, the popularity of universal child benefit rests on its recognition of the patterns of income distribution within families. Universal child benefit is an independent source of income received by primary carers (mothers) whose waged partners may have failed to provide adequate income to spend on the needs of children. It, therefore, provides certainty for mothers that money is available for children.

However, universal child allowance provides more than certainty. It also contributes to mothers' financial independence. One of the eight Millennium Development Goals, established by the United Nations and agreed to by New Zealand, was empowering women. A universal child allowance which contributes towards children's expenses provides some security by enabling mothers to be financially independent of their partners. In this regard, universal child allowance is empowering to mothers.

CHAPTER 6

UNIVERSAL CHILD ALLOWANCE: ASSISTANCE WITH COSTS OF RAISING CHILDREN

6.1 INTRODUCTION

It is right that families with children at all income levels should receive some recognition for the additional costs of bringing up children and that the tax/benefit system should allow for some general redistribution of resources from those without children to those who have the responsibility of caring for them (Department of Health and Social Security Survey, cited in Hedges & Hyatt, 1985:48).

The purpose of this chapter is to develop a case for universal child allowance on the basis that it contributes to the costs incurred by parents of raising children. Two categories of costs have dominated the debate on the economic and social costs of childrearing (Calhoun & Espenshade, 1986, 1988). Direct costs are defined as the “*physical payments made directly on purchases for children*” (Poland & Seth-Purdie, 2005:5). These are often referred to as maintenance costs and include spending on food, clothing, health, education and entertainment.

The indirect costs of raising children encompass the costs of unpaid care and services provided by parents. They also include the opportunity costs of childrearing, an example being earnings foregone while raising children. Foregone earnings result from parental time out of the labour force, reduced total working hours, depreciation of human capital, lower pay on returning to employment and losses of social security entitlements such as pension rights (Scheiwe, 2003:183; Gray & Chapman, 2001:4). Given that fathers spend the greatest number of hours in paid employment while mothers remain at home to rear children or only work part-time, indirect costs are predominantly opportunity costs incurred by mothers.

This chapter is divided into three sections. The first section focuses on the direct costs and provides evidence of the substantial costs of childrearing to families at all income levels. The second section looks at the indirect costs of parenting. In developing a compensatory case for parents, the discussion establishes the link between childrearing and wage levels, identifies the underlying causes of wage penalties and suggests why policy-makers should be concerned about wage penalties. The final section presents the arguments supporting universal child allowances as a means of contributing to the costs of raising children.

6.2 THE DIRECT COSTS OF CHILDREN

Although the relatively generous universal family benefit introduced in 1946 was eroded by inflation and then removed by the 1990 National Government, this does not imply that the costs associated with raising children are less than in the 1940s. In fact the demands on the family budget to meet the costs of children are now significantly greater. The cost of educating a child has increased because the school-leaving age has risen, extending the years of dependency. There are increasing demands for children to learn a variety of different technological skills. Further, a child needs to be socialised to live in the wider society by being exposed to a variety of social roles and activities; all of these cost parents a considerable amount of money.

There has been very little research on the direct costs of raising children in New Zealand, about who bears the cost and how much children need to cost as a minimum⁹. Given the similarities between the New Zealand and Australian economies, however, the most recent Australian studies provide some guidance as to the likely costs of New Zealand children.

An estimation of the direct costs of raising Australian children in two parent and one parent families was undertaken by Percival & Harding (2005). For illustrative purposes, this thesis has selected only a small subset of results beginning with the average costs of children in coupled families within defined age and income ranges. As expected the direct costs increased with the age of the child and the level of family income. The following is a subset of the estimations as measured in Australian dollars.

Low-income families earning an average of \$661 per week and with one child were estimated to spend \$114 per week on raising the child. In comparison, high-income families with an average weekly income of \$2,662 spent \$285 per week. An average couple with three children was estimated to spend a total of \$290 in the low-income household and \$651 in the high-income household. In terms of a proportion of household income, the costs of a single child ranged from 11 to 17 percent of family income, while in a three child family the range was 24 to 34 percent (Percival & Harding, 2005:12).

The estimated cost of raising children in lone parent families, given their vulnerability to poverty, is of particular interest to this thesis. Low-income sole parents with one child were

⁹ Percival & Harding (2000, 2003, 2005), Henman (2005), and Griffiths & Valenzuela (2004) have provided estimated costs of children in Australian households. Lino (2004) provided similar data for the United States, while Oldfield & Yu (1993) and Middleton, Ashworth & Braithwaite (1998) have produced estimates pertaining to British children.

estimated to spend an average of \$89 a week on the child, equivalent to 32 percent of an average household weekly income of \$284. In comparison, a high-income sole parent with one child spent \$204 per week or 18 percent of an average weekly income of \$1,169. In terms of three children, the average low-income sole parent spent \$204 or 72 percent of household income, while the average high-income sole parent spent \$405 or 35 percent (Percival & Harding, 2005:19).

Prior research undertaken in 2003 by Percival & Harding estimated the lifetime costs of children from birth to the end of their twentieth year. The costs, expressed in 2002 Australian dollars, showed that for an Australian couple on an average income of \$1,324 per week, the total cost to raise two children from birth to age 20, by which time both children had graduated from university, was \$448,000 (Percival & Harding, 2003:6).

The examples support the claim that substantial amounts of money are required to raise children regardless of whether parents are poor or wealthy. Given that such demands on the family budget exist, the thesis argues that there is a case for universal child allowance as a contribution towards the costs of every child.

6.3 THE INDIRECT COSTS OF CHILDREN

6.3.1 Introduction

As the twenty-first century begins, women may be approaching equality, but mothers are still far behind. Changing the status of mothers, by gaining real recognition for their work, is the great unfinished business of the women's movement (Crittenden, 2001:7).

The following section examines the case for universal child allowance on the basis that it is a part payment to parents, particularly mothers, towards the indirect costs of childrearing. The discussion concentrates on one aspect of indirect costs, that of income forgone by mothers as the primary carers who remain at home or reduce their hours of paid employment to raise children. When viewing opportunity expenditures in this manner, three measurement issues are relevant; raising children restricts mothers' choices as to the number of hours spent in paid employment, taking timeout to care for children impacts on mothers' future hourly wage rates and caring for children has a major impact upon mothers' total lifetime earnings.

All of these points can be summarised into a number of relevant questions. What is the effect of the presence of children on labour force participation? What are the consequences of

childrearing on the quantity of hours worked in the market? To what extent are hourly wage rates reduced after returning to paid employment? What is the impact on mothers' lifetime earnings and is universal child allowance a suitable policy instrument to compensate parents for income foregone?

The basic premise behind these questions is that raising children takes a large input of resources, time, physical effort, money and emotional energy. Some mothers manage to continue in full time paid employment while incurring high financial costs of substitute care. Others reduce or cease paid employment while their children are young. Opportunity costs concern both how much time out of the labour market is involved and at what rate the market would value this time. Since earnings require employment, the effect of children on labour force participation is fundamental.

6.3.2 Relationship between Childrearing and Wage Rates

Traditionally in western families mothers have adopted the role of principal carer while fathers earned income. Although the traditional role of husbands as breadwinners and wives as home-makers has been eroded in recent times as women have increased their attachment to the paid labour force, mothers have retained their role as principal caregivers. (Avellar & Smock, 2003:597). Fathers have not increased their hours of unpaid work to match mothers' increased participation in paid work.

Such a phenomenon is also true for New Zealand women. The typical situation for a mother was that she remained out of the labour force while her children were under school age. In the last twenty years, however, there has been an increasing proportion of mothers of children under five in paid employment. For example, in 1986 there were approximately 45,000 employed partnered mothers aged 25-44 with a preschool child. By 2001 the number had increased to around 64,000 (Callister, 2005:167). Statistics taken from the 2001 census show that out of a total of 89,286 families with a youngest child aged less than five years, 47 percent of all female parents were employed (Ministry of Women's Affairs, 2002:1).

Although the number of employed mothers has increased, on average, they continue to earn less than men. There are several explanations for this ranging from occupational segregation, where women's work is concentrated in lower paid industries, to fewer hours worked by mothers (Ministry of Women's Affairs, 2006:44; Statistics New Zealand, 2005a:91). An additional phenomenon has also been observed. International studies show that women who are mothers

incur an extra wage penalty (Hanson, 1983; Waite, Haggstrom & Kanouse, 1985). Why does motherhood appear to affect wages in this manner?

A possible explanation is that mothers seek “mother-friendly” jobs, the features of which help combine motherhood with paid employment even though earnings are lower. Mothers may choose jobs that have flexible working hours, facilitate part-time work, include day care facilities, have few demands for travel and have no weekend or evening work (Budig & England, 2001:208). For example, two thirds of British women who exit the labour force to rear children subsequently return on a part-time basis (Dex, Walters & Alden, 1993:164, cited in Ang & Briar, 2005:11).

Part of the reason for mothers’ lower earnings, however, appears to be unrelated to mothers’ hours of paid work or availability. A number of studies have identified a phenomenon referred to as the “motherhood wage penalty”. The average wages of mothers were observed to be less than those of women without children even after the variables of human capital (education, work experience) and part-time work status were controlled for (Anderson, Binder & Krause, 2002; Budig & England, 2001; Korenman & Neumark, 1992; Taniguchi, 1999; Waldfogel, 1997). For example, Taniguchi (1999:1014), using data from an American national survey of women who began entering the labour market in the 1970s, estimated a motherhood wage penalty of 3 percent per child. After controlling for multiple human capital and sociodemographic variables, Anderson et al (2002:357) estimated a motherhood penalty of 3-5 percent for the first child and 5-7 percent for subsequent children. Using a similar survey, but focussing on a later cohort of women who entered the labour market in the 1980s, Budig and England (2001:219) and Waldfogel (1997:216) calculated the motherhood wage penalty to be 5 percent for one child and 10 percent for two children.

After taking into account a wide variety of characteristics, researchers concluded that the residual penalty pertaining to mothers was likely to be due to a combination of two factors: lower productivity and/or employer discrimination (Avellar & Smock, 2003:599). Reduced productivity occurred when mothers suffered fatigue from caring for children. The assumption was that non-mothers spent more time relaxing and participating in leisure activities rather than child care, thereby having more energy for paid work (Budig & England, 2001:206). The discrimination explanation encompassed a variety of ways in which employers treated mothers differently from other women and included job placement, promotion and remuneration (Budig & England, 2001:208).

6.3.3 Evidence of the Indirect Costs of Childrearing in Liberal Nations

While there is much research on the conceptual issues surrounding the measurement of direct costs, the indirect costs of raising children have received less attention. There have been no major studies measuring the indirect costs incurred by New Zealand parents, although researchers and policy-makers have made use of international quasi data¹⁰. Two major Australian studies, Chapman, Dunlop, Gray, Liu & Mitchell (1999) and Gray & Chapman (2001), provide some guidance as to the indirect costs of New Zealand children.

The key question asked by researchers concerned the difference in the lifetime earnings of women with children and those without. Earnings of women with children were compared to those of childless women who were similar in terms of a range of characteristics. The following examples present estimates of the present value of lifetime female earnings in a variety of family situations. They provide evidence of the approximate loss of market earnings resulting from the presence of children, and indicate that the economic costs of children are substantial.

The research of Chapman et al (1999) showed that having one child reduced a woman's annual earnings by \$6,500 per year for the remainder of her working life (Chapman et al, 1999:12). For additional children, annual earnings decreased by a further \$4,800 for every year that the child was aged less than five and \$4,300 for every subsequent year.

Research findings reinforced the claim that children have a negative influence on lifetime earnings profile. For example, women with one child were estimated to earn 63 percent of what they would have earned had they remained childless (Gray & Chapman, 2001:8). In absolute dollar amounts, women were estimated to forego \$162,474 after tax over their lifetime. The subsequent decline in after-tax lifetime earnings from having the second child was \$11,515. Having more than two children was associated with a slightly larger earnings loss of \$14,788.

To summarise, the evidence showed that mothers who wished to return to paid employment following a period of childrearing faced wage penalties. Not only did they receive lower pay, but also their lifetime earnings were approximately halved (Joshi, 1987, 1990). Reduced lifetime earnings affected other inequalities such as pension income. Moreover, for lone mothers the penalty contributed to the gap in poverty rates between households headed by a single woman and those containing an adult male (McLanahan & Kelly, 1999).

¹⁰ Murray Shadbolt, researcher at the New Zealand Treasury, provided the following references as guides in determining the indirect costs of childrearing in New Zealand: Thomas, 2002; Miller, 2004.

6.4 UNIVERSAL CHILD ALLOWANCE: CONTRIBUTING TO CHILDREN'S COSTS

6.4.1 Introduction

This thesis argues that a universal child allowance is an appropriate policy for contributing to the costs of raising children. International evidence shows that parents value universal child allowance as an effective component in meeting the direct costs of children. It is also an effective tool for compensating parents for the indirect costs incurred, particularly for mothers who have taken time out to care for children and whose income from paid employment is likely to be less. In this regard, universal child allowance is very much a practical measure for assisting families.

However, universal child allowance is more than simply a practical remedy for the costs of raising children. There are also principled reasons for paying child allowance as a contribution towards children's costs. The first is based on the principle of horizontal equity. Families with dependent children incur greater costs than families without children at the same income level. Paying universal child allowance ensures that parents with dependent children are not financially disadvantaged. The second is based on the principle of lifecycle redistribution. Universal child allowance provides additional income to families at a time when their financial needs are greatest.

6.4.2 Universal Child Allowance: A Practical Remedy

Assisting with the Direct Costs of Raising Children

In developing the argument that universal child allowance is an important part of the family budget to meet the costs of children, two questions arise. Do parents use universal child allowance to pay for the expenses of children? What evidence is there that it assists the family budget to meet the costs of raising children?

To answer these questions, British evidence of parents' attitude to universal child benefit is examined. Each study suggested that it had wide support for a variety of reasons. Generalising from the research, this thesis argues that New Zealand parents would have similar attitudes to a universal child allowance in New Zealand.

The first study reviewed was the United Kingdom Child Poverty Action Group's 1985 survey of mothers in England and Wales. The majority of mothers used universal child benefit to provide for the needs of their children (Walsh & Lister, 1985:25). Almost all interviewees spent a large

part of the benefit on food (87.7 percent of participants), children's clothing (94.9 percent) and children's shoes (89.8 percent). It was also widely used for school expenses (68.4 percent) as well as fuel costs (27 percent). Lone mothers were more likely to use their child benefit to pay for food and twice as likely as partnered mothers to use it for fuel costs. Such spending patterns reflected lone parents' responsibility for household bills and generally lowered level of household income.

Research conducted in 1994 by the United Kingdom Centre for Research and Social Policy found that use of universal child benefit varied according to socio-economic standing (Bradshaw & Stimson, 1997:48). Although not always possible, women from lower-income groups preferred to use child benefit exclusively for their children. On many occasions it was used for buying necessities such as heating and food. The group argued cogently that such spending benefited their children and, therefore, justified placing the money in a general housekeeping pool. Apart from the general pool, the allowance was used for footwear and clothing. For women in the higher-income category the allowance went into a general pool, although it was still viewed as money specifically for children's needs.

An interesting conclusion emerging from more recent British research also emphasised the importance of universal child benefit to families across the economic spectrum (Middleton et al, 1998). To illustrate, in 1995 at a time when universal child benefit was paid at the rate of £10.40 for the oldest child and £8.45 for each subsequent child, the benefit met one-fifth of the average spending on children (21 percent for the oldest child and 19 percent for subsequent children) (Middleton et al, 1998:40). Although there was no guarantee that parents spent child benefit directly on children, research unequivocally showed that all families valued the benefit and used it directly for children's needs. The researchers argued that the withdrawal or erosion of the value of universal child benefit would have a major impact on the financial circumstances of all British children.

To summarise, the studies unequivocally showed that, regardless of the family's socioeconomic status, universal child benefit was an important part of family income to be used to meet the costs of raising children. Whether directly or indirectly spent on children, most families considered it children's money.

Assisting with the Indirect Costs of Raising Children

Universal child allowance also serves as payment for the indirect costs of raising children, and was suggested as a means of compensating for income foregone to the 1988 Royal Commission

on Social Policy. To illustrate, in a paper prepared for the Commission a possible objective given for family financial assistance was “*compensation for income foregone as a consequence of undertaking socially desirable but generally unpaid work*” (Royal Commission on Social Policy, 1988:8).

The authors specifically referred to compensation for the indirect costs of children or income foregone by parents. Indirect costs included reduced wage rates on returning to employment and lowered lifetime earnings. The authors argued that the need for compensation rested on the assumption that engaging in paid employment was the norm for women. If women chose to bear children instead, they should be compensated in the form of a mother’s allowance.

It is interesting to note that the 1987 Treasury Briefing Papers also suggested a universal payment to parents in “*recognition of a caring parent’s worth to society*” (New Zealand Treasury, 1987:177, cited in Royal Commission on Social Policy, 1988:8). Unfortunately the idea was rejected on the grounds of cost.

6.4.3 Universal Child Allowance: A Remedy Based on Principles

Principle of Horizontal Equity

As a group, and, at any given income level, families with dependent children are clearly at a financial disadvantage and have relatively lower material standards of living compared with individuals or families without dependent children on the same level of income...There is a strong case for income transfers from non-parents to parents at all income levels (Royal Commission on Social Security, 1972:217-218).

A fundamental argument justifying universal child allowance as a contribution to children’s costs is based on the principle of horizontal equity. As an objective, horizontal equity is defined as “*a belief in the desirability of equal treatment of equals*” (Connolly & Munro, 1999:49). The principle suggests that people in like circumstances should be treated alike. In practice and from an economic perspective, the principle is taken to support different treatment of people with the same income, but differing calls on that income (McClelland, 1987:19).

Applying the term to family financial assistance policies, horizontal equity refers to a “*fair share*” for all families with dependent children (McClelland, 1987:19). Such a principle recognises that parents incur greater costs and have greater needs than those at the same income level who are childless (Cass, 1986:3). Parents with dependent children need additional support, regardless of their level of income, so they can achieve the same standards of living as

those without children. Universal child allowances provide additional support so equitable living standards can be achieved between families with and without children (Bennett & Dornan, 2006:5).

Principle of Lifecycle Redistribution

The majority of people have children or take responsibility for children at some point in their lives. Raising children is a time when family needs are greatest, but income tends to be lower either because of the absence or reduction in a second wage or because it also tends to be a time when families have mortgage commitments.

By providing community support through universal child allowance to increase the disposable income of families with dependent children, resources are distributed over the lifecycle of the family to a time when they are needed the most.

6.5 CONCLUSION

Although New Zealand data on the direct costs of children are unavailable, international research shows that they are substantial. The indirect costs were defined in terms of parental income foregone. In reality, this frequently means mother's income. Through analysis of the determinants of labour force participation, hours worked if employed and wage rates it is possible to estimate the foregone earnings associated with children. The conclusion is that the indirect costs of raising children are also substantial; rearing children has a significant monetary impact on mothers' earnings.

Although the findings do not imply a particular policy prescription, they do provide supporting information in the debate on reintroducing a universal child allowance. In this regard four arguments are presented. The first argument is based on international research which provided evidence that universal child allowance made a vital contribution to family finances to meet expenditures on children. Perhaps the most poignant comment to emerge from the surveys was regardless of how little child allowance contributed to the family budget it was strongly valued. While the research did not provide a definitive answer as to the uses of universal child allowance, there was an overwhelming impression that parents felt a moral obligation to spend it on their children. The argument has clear implications for New Zealand policy. Current policy favours allocating more resources to means-tested support for children. However, the role played by universal child allowance in the household budgets of those surveyed, many of

whom were outside the scope of means-tested assistance and the value placed upon the allowance by mothers themselves, point to a different set of policy conclusions.

Universal child allowance also compensates mothers for income lost when leaving the paid workforce to raise children or reducing the hours of paid work. In this sense it goes some way to restoring the financial inequity between employed women with children and those without.

While both of the preceding arguments are practical in nature, there are also principled reasons for contributing to the costs of raising children. The first of these applies the principle of horizontal equity. In New Zealand the support of children is perceived primarily as the responsibility of their parents who are expected to provide for their children's needs. At the same time government income support programmes embody a concept of shared parental responsibility to selected parents. However, in accordance with the principle of horizontal equity, this thesis has argued that recognition should be given to the fact that all households with dependent children have a greater outlay than those without children. Therefore, all parents should be given financial support so the living standards between families with children and those without on the same level of income are restored.

The second principled argument suggests that raising children is a time when family needs are greatest, but income tends to be lower. Universal child allowance helps to redistribute resources over the lifecycle of the family to times when they are most in need.

CHAPTER 7

PARENTING AND THE PUBLIC GOOD

7.1 INTRODUCTION

Because the production of children's capabilities creates a public good that cannot be priced in the market, individuals can free ride on the efforts of parents in general and mothers in particular. We need to redesign the social contract in ways that encourage more sustainable forms of intergenerational altruism and reciprocity (England & Folbre, 1999a:194).

The main purpose of this chapter is to present a case for universal child allowance on the basis that it is a payment for the advantages which sound parenting brings to society. Commonly, goods or services provide benefits only to those who purchase them, with the producer or provider receiving payment from the purchaser. Parenting efforts also provide benefits. Indeed it can be argued that parenting makes an essential contribution to all of society. However, those who benefit frequently do not make payment to the provider. To illustrate, good parenting involves spending money to purchase goods and services for children as well as spending time to develop children's social and economic skills. Sound nurturing in turn increases the likelihood that a child will grow up to be a caring and productive adult.

Well brought up children bring positive externalities for society, the benefits of which can be thought of as public goods. Public goods are defined "*as those that cannot be supplied to any one person without being automatically available for everybody*" (Bittman & Pixley, 1997:196). The benefits can also be considered an investment in children, the returns of which are twofold (Richardson, 2000:12). The first is the immediate physical and emotional wellbeing of the child, and includes being well-fed, healthy and emotionally stable. The second involves positive adult outcomes such as being a responsible member of society, and generally contributing to its harmonious functioning. Positive adult outcomes also include being educated and skilled. These in turn lead to gainful employment and contributing taxes to fund government programmes.

Those who benefit, including future employers, neighbours, spouses, friends and members of society in general, pay nothing to parents who have spent time, effort and money successfully raising children. There is a valid argument, therefore, that a society which enjoys the economic and social benefits of human capabilities has an obligation to help fund the expense of developing them. Public policies are an important vehicle for a more equitable distribution of

the costs of children across generations. This thesis argues that an appropriate policy that ensures society pays for the advantages resulting from good parenting is universal child allowance funded through general taxation.

7.2 THE PUBLIC GOOD ARGUMENT OUTLINED

Education is an important component of the nurturing process of all children. In New Zealand the government recognises that many parents cannot pay for their children's education. Thus state education, paid for out of general taxation, is accepted as an important social investment in the future of the next generation. Social investment is defined as "*investment which produces a return to the community in terms of the quality of future generations*" (Wynn, 1970:21).

While this important role is acknowledged, it is also recognised that many children receive a major part of their education from their parents, especially their mothers, before they begin formal schooling. Children start school having already acquired language and a range of other skills. It is also recognised, however, that investment in a child's education can be frustrated by a poor family environment. The quality of the next generation is, therefore, not only determined by the school, but also the family (Wynn, 1970:20). As parental rearing of children requires time, effort and money, with satisfactory nurturing providing benefits, the expenditure of parents also has a social investment component.

There have been some who have argued that parental investment is more important than investment in formal education. For example, Professor Wiseman, an eminent British scholar, expressed the following point of view to the Plowden Committee, a group reporting to the British Government on primary education:

We regard two of our findings as being of the first importance: that environmental forces bear most heavily on the brightest of our children; and that factors in the home are overwhelmingly more powerful than those of the neighbourhood and the school (Plowden Report, 1967, 2:382, cited in Wynn, 1970:20).¹¹

Regardless of whether formal or informal education is more important, parenting undeniably plays a key role in the successful nurturing of children. Both formal and informal education contributes to the development of children who as adults make positive contributions to society

¹¹ It is now almost 40 years since the Plowden Report. The policy at the time was to reinforce mothers' care-giving responsibilities and limit their opportunities for paid work to part-time, and so the Report contained a number of strong statements about the value of mothering. Today, however, in the context of a drive to persuade mothers back to paid work sooner and for longer, to meet projected long-term labour shortages, much less is explicitly stated about the importance of unpaid work done by mothers.

from which others benefit. Hence, the investment made by both school and parents has a social investment component.

Successful parental investment produces outcomes referred to as positive externalities. These include both private benefits and public goods. An example of a private benefit is assistance given to family members by their adult children such as providing practical assistance to elderly parents. Adult children also produce benefits at the macro level of society, commonly referred to as public goods. Children are future generations of taxpayers, the future labour force and future care providers. For example, as educated and skilled members of the working population they are taxed to fund old age pension schemes based on transfers from the working to the retired population (Scheiwe, 2003:183). A further example includes taxation of the working-age population to assist pay the public debt accumulated by prior generations. Effectively, the elderly become dependent on other people's children. In turn, adult children rear children who will support them when they are older and no longer able to work. Such interdependencies are described by Adams & Dominick (1995:39) as intergenerational contracts involving three generations: children, their parents and the retired.

In liberal nations having children is often presented as an individual, personal lifestyle choice. This viewpoint is then used as a justification for not supporting families with children. By contrast, we have seen that children are a common resource creating future shared benefits for parents and society. We have also seen in an earlier chapter that children generate costs. This thesis argues that society expects the family, as an institution, to continue to perform its socially vital functions of producing children, while at the same time incurring the increasing costs of those functions. That is, our social security system promises that families will continue to produce human capital in the form of children who will grow up, acquire skills, pay taxes and be able to support public programmes. However, at present in New Zealand there is no guarantee that parents will be assisted to meet the costs of raising those children.

The "collective good problem" arises where one group incurs the costs of the goods, while receiving an under proportionate share of the benefits (Scheiwe, 2003:183). In contrast, others benefit without paying adequately for the good, commonly referred to as the "free-rider" problem. For example, individuals who devote few resources to childrearing are free-riding on parental labour. In other words, while all citizens make claims upon the earnings of future working age adults through social security and public debt, not all citizens contribute equally to the childrearing of these future adults.

In order to recompense parents for their efforts and as a solution to the free rider problem, the thesis argues that the costs of childrearing should be socialised. If it is expedient to spread some of the costs of education over the community as a whole, it is also expedient to spread a portion of the parental costs of investment in the next generation. This would provide more consistency between the costs and benefits of childrearing. In the words of Folbre (1994a:89) “*society must promote more equal distribution of the costs of children*”.

To summarise, this chapter argues that as society benefits from the social wealth produced by families, then society should accept some financial responsibility for raising children. While the primary responsibility for childrearing should remain with parents, society can by providing financial assistance support the parental role. Self interest dictates that it should find the appropriate means to do so. As the British National Children’s Bureau wrote in 1984 and which is still relevant today:

Children constitute our future. The contributions of all taxpayers are used to build roads, schools and railway lines. By the same token, they should contribute towards the human capital that constitutes the future of our nation. (National Children’s Bureau, 1984, cited in Brown, 1988:3).

The next section argues that a universal child allowance is an appropriate means to demonstrate society’s responsibility for childrearing.

7.3 UNIVERSAL CHILD ALLOWANCE: PAYING FOR THE PUBLIC GOOD

7.3.1 Introduction

Family allowances... are widely viewed as a policy strategy or device whereby the society as a whole shares in the economic costs of rearing children, just as it shares ultimately in the economic benefits of well-reared and healthy children who become adults, productive workers, nurturant parents, and good citizens (Kamerman & Kahn, 1983:200).

There are many countries that recognise, on behalf of their current and future generations, the contributions made by parents to the future wellbeing of society. Policies such as maternity benefits, universal child benefit and paid parental leave are examples. Indeed, New Zealand, while slow to adopt measures, now has a system of paid parental leave. While the government can be congratulated for its efforts in this regard, this thesis argues that paid parental leave is insufficient to recognise the vast contribution parents make in providing societal benefits. Moreover, not all parents are eligible for paid parental leave, even though it has recently been extended to self employed mothers.

As a supplement to existing measures, a universal child allowance funded through general taxation would be a suitable policy tool to act as payment to parents by those who benefit from children. Several arguments provide supporting evidence for the application of universal child allowance in this manner.

7.3.2 Universal Child Allowance: A Policy to Recognise the Value of Childrearing

In New Zealand before 1990 there was strong acceptance within policy circles that universal family benefit was a legitimate payment for the benefits of good parenting. For example, the 1988 Royal Commission on Social Policy argued that a universal family benefit served not only to compensate families for the extra costs of children, but also to recognise how society benefited from children (Royal Commission on Social Policy, 1988:34).

The Commission argued that bringing up children was an important social investment activity. Therefore, financial responsibility for childrearing should be shared in partnership between the family and the state. Moreover, such arguments applied to families at all income levels. Universal family benefit, while not the only possibility, was an agreed means of sharing the financial responsibility between family and state.

7.3.3 Universal Child Allowance: Payment to Parents Based on the Equity Principle

The children now are the future and the future earners in the country, and obviously the more help they can give the parents in bringing up the children the better they can be looked after, and probably have a higher standard of education. And in the end the government get it back because if they have quite good jobs the government are going to get it back in taxes (ABC1/Harr/15, cited in Hedges & Hyatt, 1985:38).

A general principle associated with equity is that those who benefit from a good or service should contribute to its cost. Applying the principle to the childrearing services parents provide, those who bear the cost of raising children deserve public support because good parenting produces children who will benefit society in the future. The costs of childrearing should be distributed in a manner consistent with the benefits.

The argument is summarised by Budig & England (2001) who argued, “*the equitable solution would be to collectivise the costs of child rearing broadly – to be paid not just by employers but all citizens – because the benefits diffuse broadly*” (Budig & England, 2001:221).

7.3.4 Universal Child Allowance: Formalising an Intergenerational Contract

Universal child allowances provide parents and society with a tangible means to acknowledge that an intergenerational contract exists among members of society. It also provides society with a tangible means to acknowledge that a contract exists between parents and non-parents.

Protection against loss of income and poverty in old age depends on an intergenerational contract. Economically active adults support the retired, while also raising children who will in turn support them in old age (Adams, 1990:492). Effectively, the intergenerational contract imposes two obligations on adults: the first is paying taxes to support current retirees, and the second is raising children who will work and pay taxes to support their parents and others in retirement.

New Zealand's formal social security system collectivises such an arrangement. It does this by collecting taxes from the working population and paying the retired in the form of national superannuation. In doing so, however, it also breaks the relationship between rearing children and ensuring economic security in old age. To ensure retirement security, individuals no longer need to have their own children for such purposes; it is only necessary that others rear children (Adams, 1990:492; Ozawa, 1986:14).

Universal child allowance is a policy which effectively reinstates this relationship. It does this by compensating parents who carry the costs of old age insurance for their generation. Thus universal child allowance can be thought of as a transfer from the childless who are not burdened with the costs of childrearing, but who need other people's children to provide security for their own retirement (Ruland, 1986, cited in Adams, 1990:495).

To summarise, universal child allowance is a policy which explicitly acknowledges the contribution to society in general and social welfare in particular that childrearing brings. The act of paying universal child allowance to parents is a means of recognising the principle that the burden of family maintenance should be equalised between those who bare the burden in the interests of society and those who do not, but who derive benefit from the fact that others do (Munz & Wintersberger, 1984:303).

7.4 CONCLUSION

This thesis argues that, rather than a private good, the sound nurturing of children results in a public good to society, the benefits of which can be enjoyed by others without payment.

Intergenerational benefits provided to society, examples of which are included, reinforce the notion of children in this context. Given the public good nature of parenting, society has a responsibility of care towards children. The thesis argues that a partnership between parents and the state is an appropriate expression of care, with the state sharing a portion of the costs of children with parents.

Universal child allowance is a means of formalising the partnership between generations and between parents and non-parents. It is a tool that recognises the contribution to society in general and social security in particular that childrearing makes. Such a programme is also designed to help equalise the burden of childrearing between parents and non-parents. Children are an investment in the future, and society should have a role to invest in the future of New Zealand (Day, 1988:92). Universal child allowance is a sound and just means of manifesting this role.

CHAPTER 8

LABOUR SUPPLY AND UNIVERSAL CHILD ALLOWANCE

8.1 INTRODUCTION

This chapter presents the argument that in addition to financially assisting families, universal child allowance enables parents to combine paid employment with having children without creating any disincentive to either.

There is concern within the richer nations that as the population ages and the proportion of retired people grow, there will be labour shortages (OECD, 2004b:1). As a result the rate of female labour force participation within OECD countries has attracted increasing attention, the argument being that policies designed to increase the involvement of women in paid work could alleviate such concerns (Burniaux, Duval & Jaumotte, 2003). At the same time, because of low birth rates in many richer nations, recent OECD reports suggest that government policies in member states should make paid work attractive to mothers, but without causing further reductions in fertility (OECD, 2002b, 2003, 2004a, 2005b). The OECD is urging member states to encourage mothers to remain attached to the paid work force as well as having children.

Labour force participation rates are also of concern to the New Zealand Government. Compared to other OECD countries, New Zealand has a relatively high overall rate of female participation. However, New Zealand has relatively low rates by mothers of young children and lone mothers (Johnston, 2005:34). In order to increase their involvement, a number of policies have been reviewed as well as new ones introduced including Paid Parental Leave, child care subsidies and the Working for Families package.

Government policies do affect people's decisions to enter the labour market whether or not this is the primary aim of such policies. In particular, tax/benefit policies affect the net return that families receive from working and, therefore, are a key element in their decisions about involvement in paid work (Johnston, 2005:4).

This thesis argues that, unlike means-tested benefits which create poverty traps, universal child allowances encourage mothers to combine work and family without creating disincentives. The following discussion provides supporting arguments. Before looking at these a brief description is presented of what the New Zealand Government is currently doing to encourage motherhood

and paid employment. This thesis argues that universal child allowance is a suitable addition, and fits neatly into the Government's policy framework. Moreover, it provides a solution to some of the negative aspects emanating from current policies.

8.2 CURRENT POLICY FRAMEWORK TO INCREASE LABOUR SUPPLY

Forecasting a labour shortage for the next fifty years and amid concerns about the long term birth rate, a recent OECD series of reports entitled "*Babies and Bosses*" was researched and written. The starting point of the series, hence the title, was that women's dual role as mothers and paid workers was essential. The series had the specific aim of convincing governments of OECD member countries to build on policies which encouraged women to have babies and participate in the paid work force (OECD 2002b, 2003, 2004a, 2005b). In particular, one of these publications described New Zealand's socio-economic environment as one characterised by rapid economic growth, but significant skill shortages and continued low labour productivity (OECD, 2004a:51). The review also expressed concern at the degree of working-age poverty resulting from unemployment. The organisation argued that in order to rank in the top half of OECD countries in terms of living standards, New Zealand needed to make greater progress in improving labour utilisation. This was particularly the case for under-represented groups (OECD, 2005a:13).

Two categories of workers were identified as under-represented. The first group comprised working-age beneficiaries and included lone parents. The second consisted of non-beneficiary mothers whom the organisation believed would like to work, but faced practical obstacles. In particular, the OECD argued that employment rates were relatively low among mothers with young and primary school age children (OECD, 2005a:121). For example, only 40 percent of New Zealand women with a child aged less than six years were in paid employment (Johnston, 2005:42). Moreover, international comparisons have identified New Zealand as a country with low participation rates for women aged 25 to 34 years (Bryant, Jacobsen, Bell & Garrett, 2004:3). For example, in both the 25-29 year age group and the 30-34 year age group participation rates for New Zealand women are ranked 22nd out of 24 OECD countries (Johnston, 2005:3). By increasing women's labour force participation, it is argued that New Zealand could close one-third of the per-capita GDP gap with other developed countries.

The labour force participation of younger women has consistently been a focus of policy discussions. For example, the Prime Minister in her opening addresses to Parliament in 2004 and 2005 referred to the Government's impending review of a range of policies in its effort to encourage more women into the paid workforce (Clark, 2004, 2005).

We also intend to make major improvements to the level of family income assistance. We aim to ensure that families with dependent children are always better off when in work, while also improving the circumstances of families with children whose parents are not currently in the work force. In doing that we will be directly addressing some of the most critical barriers to employment, such as access to affordable childcare (Clark, 2004).

Two policies at the centre of Government efforts to increase mothers' attachment to the paid workforce are Paid Parental Leave and the Working for Families Package. For example, the number of weeks of paid parental leave for eligible parents has been increased from 12 to 14 weeks. In addition, from July 2006 paid parental leave was expanded to include a range of self employed parents such as farming families (Dyson, 2006). A second example was the introduction of the 2004 Working for Families package in which both the amount of Family Support and the In-work Payment were increased.

While both policies are welcomed, there are concerns with each. In presenting a case for universal child allowance the next section identifies some of these concerns. It also presents additional arguments favouring universal child allowance as a policy which assists with achieving the objective of moving mothers into the paid workforce.

8.3 UNIVERSAL CHILD ALLOWANCE AND LABOUR FORCE COMPATABILITY

8.3.1 Introduction

Women value child benefit because it is neutral between those who stay at home with their children and those who go out to work. Because child benefit is not taken away or reduced when a mother goes back to work it doesn't act as a disincentive to getting a job (Bennett, 1991:88).

Several arguments are presented in support of universal child allowance as a policy compatible with government efforts to encourage more women into paid work. The first argument identifies the objective of maintaining work incentives as one of the key underlying principles of universal child allowance. The second highlights the point that, unlike means-tested benefits, universal child allowance does not result in high marginal effective tax rates when paid employment is undertaken or increased. The final argument provides international evidence to illustrate that countries which have universal unconditional benefits also have high labour participation rates among mothers. They also have lower rates of child and maternal poverty.

8.3.2 Universal Child Allowance and the Principle of Maintaining Work Incentives

Two of child benefit's multiple functions promote objectives that command a wide range of support – the ending of child poverty and the maintenance of work incentives (Brown, 1988: 7).

In developing a rationale for universal child allowance, it is useful to return to the underlying principles of why families with children should be supported. One particular principle is that policy should promote family independence and avoid any hindrance to work incentives (Brown, 1990; McClelland, 1987; Cass, 1986).

While universal child allowances are designed to assist the family with the costs of rearing children, responsibility for the overall financial support of children still rests with their parents. One of the powerful features of universal child allowance is that it does not interfere with the choice to return to or increase the number of hours of paid work. As an unconditional universal benefit, child allowance does not have the damaging impact on work incentives arising from abatement rates relevant to means-tested benefits.

To illustrate, because universal child allowance is non-means-tested, when a family moves from unemployment to work the amount of the benefit is unaffected. For this reason universal child allowance has been perceived as important in countering the unemployment trap, a situation in which a parent may be little better off in work than out (Brown, 1990:17). Parents are, therefore, free to make responsible decisions about employment and earnings. This is achieved because universal child allowance does not influence the marginal tax rates of families as income from paid employment increases.

The latter is a particularly important point, an understanding of which can be gained by looking at the contrasting scenario of the relationship between means-tested financial assistance, Effective Marginal Tax Rates and the labour supply. The next section outlines this relationship and illustrates using the Working for Families package as an example.

8.3.3 Universal Child Allowance and the Absence of Effective Marginal Tax Rates

The following discussion and the examples provided contrast the disincentive effects of means-tested entitlements with those of universal entitlements. A universal child allowance is without the complications which arise for claimants of means-tested assistance who choose to take up paid work. For families receiving universal child allowance the choices for mothers to work or increase their hours of work are not complicated by the fear of losing financial assistance.

Effective Marginal Tax Rates (EMTRs) can be used to illustrate the relationship between changes in hours of work and changes in net incomes. As noted earlier in the thesis, EMTRs show the proportion by which an additional dollar increase in gross income is reduced by income taxation and the abatement of a means-tested social security entitlement. (Nolan, 2004:5). The progressive withdrawal of a financial entitlement as earnings from paid employment increase means that recipients receive little reward for their efforts to earn extra money (Mackay, 2001:25). As a result there is a tendency for individuals to be discouraged from seeking work or pursuing better paid employment.

A brief look at Working for Families, a means-tested package, provides an appreciation of EMTRs and their disincentive effect. However, before doing so the positive aspects of Working for Families are noted, for there is little doubt that the package will improve the living standards of some families. Pre-election changes to the package in August 2005 reduced the abatement rate for all financial assistance received above \$27,000 from 30 percent to 18 percent. The change increased the number of families eligible for the package and reduced EMTRs for many recipients resulting in greater weekly disposable incomes for a number of middle income families (Stephens & Callister, 2006:25).

However, as Working for Families is a means-tested package, the amount of benefit entitlement received declines as total disposable income increases. For example, a lone parent in paid employment between 12 and 27 hours and a couple between 8 and 30 hours do not receive any increase in disposable income. In these cases benefit abatement and income tax on earnings give rise to EMTRs of 91 percent. For these categories of parents there is little inducement to increase working hours (Stephens and Callister, 2006:26).

Working for Families is not the only policy resulting in high EMTRs when the number of hours of paid employment increases. Mothers receiving the Domestic Purposes Benefit (DPB) are also subjected to benefit abatement and high EMTRs when earning income from paid employment. In fact all means-tested benefits, depending on threshold levels and abatement rates, are subjected to increasing EMTRs.

Rising EMTRs pose several concerns for policy-makers. Some parents may be enticed to reduce the number of hours worked in order to maximise their family assistance entitlement or even be discouraged from entering the workforce. In particular, partnered mothers with young children may respond in this way (Johnson, 2005:42). International studies suggest that mother's labour force participation is responsive to financial incentives. An example is provided by a United States study of the expansion between 1984 and 1996 of the Earned

Income Tax Credit. The policy change resulted in an increase of 21 percent in EMTRs for some married women, equivalent to a reduction in labour force participation of low-waged married women by a full percentage point (Eissa & Hoynes, 2004:1956).

A second example is provided by Brewer & Browne (2006) whose research focused on the labour market impact in Britain of replacing the Family Credit (FC) with the Working Families' Tax Credit (WFTC). Although both were means-tested policies, the threshold levels and abatement rates for WFTC were less punishing than those of the FC. For example, in replacing the FC with WFTC the threshold level was increased from £70 to £90 per week and the abatement rate lowered from 70 percent to 55 percent. In addition to redistributing money to low-income families with children, the aim of WFTC was to help "*make work pay*" and hence increase labour market participation among parents (Brewer & Browne, 2006:2). The research provided evidence that increased threshold levels and reduced abatement rates had positive impacts on labour market participation. For example, there was a 5 percent increase in the participation of lone mothers in the work force between 1999 and 2002, with much of the shift into full-time work (Brewer & Browne, 2006:15).

The OECD and the New Zealand Government are keen for more mothers to participate in the paid labour force, but without having fewer children. A universal child allowance removes some of the disincentives to having children that currently exist. At the same time, universal child allowance allows mothers to improve their financial situation instead of creating poverty traps and disincentives. The key lesson is that EMTRs implicit in means-tested benefits can be a discouragement to paid employment. In comparison, universal benefits are not subjected to the disincentive effects of threshold levels, abatement rates and increasing EMTRs. If a mother with a dependent child chooses to return to work the amount of universal child allowance received remains in tact.

8.3.4 The Swedish Example

As we have seen in countries where significant economic disincentives arise, mothers who might otherwise undertake paid work or extend their working hours are discouraged from doing so. This is particularly the case when the household is within the income limits over which family assistance is phased out. By contrast, countries where distortions to the economic value of paid employment are less significant have higher labour force participation rates. Useful examples are provided by the Scandinavian countries whose policy environments facilitate mothers' capacity to combine paid work and family life. This thesis looks at the example of Sweden.

It is assumed that in most countries an inverse relationship exists between women's labour force status and the level of fertility (Chesnais, 1996:732). The Swedish experience suggests, however, that such an assumption is not always correct. Swedish family policy has consistently attempted to facilitate women's entry to the labour market, and their continued involvement with it at minimal cost to childrearing (Hugo, 2000:7). Hence the relationship between Swedish women's labour force participation and fertility is positively related (McIntosh, 1998:9).

In achieving a positive relationship, Sweden has adopted family-friendly policies to a greater extent than other nations. In fact Sweden's family policy incorporates elements of fiscal, labour market, education and housing policies as well as childcare and generous monetary transfers (McIntosh, 1998: 9). The following quote from Hoem & Hoem (1996) summarises this approach:

Facilitation of work force participation for women along with men, for parents of small children as well as other adults has been the guiding principle....Many features aim at making it possible for dual earner families with small children to cope with the pressures of combining labour force participation and running a home. Inducements have taken the form of generous monetary benefits, comprehensive public child care services, parental rights to reduction of working hours and job leave (Hoem & Hoem, 1996:1).

In the 1970s in Sweden the breadwinner family model was abandoned for the dual earner family model where men and women were regarded as equal both in the labour market and in the family (Grant, Hoorens, Sivadasan, van het Loo, DaVanzo, Hale, Gibson & Butz, 2004:124). A generous universal child allowance scheme along with other policies¹² that targeted the compatibility of labour and childrearing comprised Swedish family policy (Grant et al, 2004:126). Child allowances, based on the ages of children, were excluded from taxable income and were non-means-tested. By 2001 the basic level of child allowance paid on the child's behalf to the mother was 950 Swedish crowns per month, equivalent to €85 (Grant et al, 2004:126).

The success of Swedish policies can be measured in terms of the number of mothers engaged in paid employment. For example, in 2003 Swedish maternal employment rates exceeded 80 percent (OECD, 2005b:69). Moreover, in 2003 72 percent of Swedish mothers with a child aged less than 3 years were active in paid employment (OECD, 2005b:72). Employment rates among lone parents are also high in Sweden, with more than 80 percent employed (OECD, 2005b:75). At the same time, the Swedish fertility rate has remained stable. It would appear

¹² As well as universal child allowance Swedish family policy consists of paid parental leave, public childcare and individual taxation (Grant et al, 2004:126)

that access to reliable state benefits, generous paid parental leave and good quality childcare make mothers less anxious about having children.

To summarise, the success of Sweden shows that it is possible to retain mothers' attachment to paid work while maintaining healthy birth rates and low levels of poverty. Universal family allowance is one of a number of policies implemented by the Swedish government to achieve these impressive results. Moreover, the success of Swedish policies and the statistics showing the high proportion of mothers in paid work indicate that given the right type of financial assistance, mothers choose paid employment. Universal child allowance is an example of the appropriate type of financial assistance because as an unconditional benefit it improves work incentives. On the contrary, means-tested benefits undermine work incentives.

8.4 CONCLUSION

Although New Zealand's labour force participation is high overall, compared with many OECD countries there are areas where involvement is considered weak. As we have seen such areas include mothers with young and school age-children, beneficiaries and lone parents. Although improvements have been made in work incentives for some parents, those outside the workforce continue to face disincentives against taking up or increasing hours of paid work. Whether through longer hours or taking on greater responsibilities, burdensome EMTRs at several points on the income scale mean that there are mothers who would choose more hours of employment if policy settings were different.

One of the key attributes of universal child allowance is that it does not create disincentives to paid work unlike means-tested benefits. As a non means-tested benefit, universal child allowance acts to reinforce a family's own efforts to raise living standards and, therefore, has an important part to play in the transition to paid employment and retaining parents in paid employment. This is a particularly important point given the government's focus on encouraging second earners within couples and lone parents into employment.

Countries such as Sweden show that it is possible by implementing family friendly policies such as universal child allowances, which do not interfere with paid work decisions, to increase and retain attachment to the labour market. At the same time such policies ensure that the family is well cared for.

Finally, a brief comment is made about New Zealand's current policy framework. At the beginning of the chapter mention was made that extending Paid Parental Leave was one

particular means adopted by government to entice more mothers back to paid work. While the thesis commends the government on expanding the number of weeks of entitlement and including as eligible parents the self employed, there remain certain inequities associated with the policy. For example, the scheme excludes women in part-time jobs working less than 10 hours per week. Moreover, seasonal, short-term or casual workers who don't work continuously for six months for the same employer before the birth of their child are also excluded.

While Paid Parental Leave might be an enticement for some to return to paid work, for those who are ineligible there is no incentive. In contrast, one of the powerful attributes of universal child allowance is the fact that it is unconditional. It is paid on an equal basis to all families whether one or both parents work or neither parent is in paid employment. As such it is responsive to the income needs of children in a variety of families on a non-discriminatory basis. Unlike Paid Parental Leave, where several eligibility criteria apply, to be eligible for universal child allowance requires only to be a parent with a dependent child. This simple but powerful attribute means that the caring parent has the choice to return to work using child allowance to help pay for child care or remain at home as the primary carer. Regardless of the choice made, entitlement to universal child allowance continues.

CHAPTER 9

PRONATALISM AND UNIVERSAL CHILD ALLOWANCE

9.1 INTRODUCTION

No single measure is going to work on its own...In France, across-the-board initiatives, including subsidised childcare, housing support and universal family benefits, have helped ensure that France's birth rate has stayed relatively steady since the late 1970s. New Zealand – like most of the English-speaking world – has fallen victim to the ideological trap of targeting family policy (Professor Ian Pool quoted in NZ Facing Population Crisis, 2005).

This chapter considers the possibility that reintroducing universal child allowance would contribute to an increase in New Zealand's birth rate. New Zealand is currently experiencing a declining birth rate and an ageing population, with resulting implications for the future supply of skilled workers and the commitment to fund a public pension scheme.

The chapter begins by giving a brief commentary on factors which influence women's decision to have children. The decision to have a child is complex and is determined by a variety of factors, some of which are influenced by government policies (Robertson, Rogers & Pryor, 2006:44). Increasingly in modern societies such decisions are also influenced by concerns about the costs of raising children and the long period of time when children are financially dependent.

Having provided an overview of the typical policy framework influencing fertility decisions, the discussion then looks specifically at New Zealand's population trends and the concerns emanating from these. The second part of this chapter presents the arguments supporting universal child allowance as a potential pronatalist policy. Evidence is provided of countries where family allowances have been successful in increasing fertility rates. In addition, a brief description is given of the attributes of universal child allowances which contribute to their pronatalist influence.

9.2 POLICY FRAMEWORKS AND THE INFLUENCE ON WOMEN'S FERTILITY

Family policies in OECD countries emphasise women's freedom to choose whether or not to have children (Briar, 2006). Since the late 1980s, however, social and economic policy frameworks have inadvertently resulted in women having fewer children. Most women wish to

have children. There is concern, however, that the commitment required to work long hours in paid employment, insecure jobs, downward occupational mobility after having children, low pay and the unreliability of state financial support for families will hinder mothers' attempts to support children until they are financially independent. To illustrate, a recent qualitative study conducted in Australia reinforced the notion that economic conditions influence fertility decisions. The study found that having children remained a priority for young Australians. However, they waited until they were in a more secure financial position, and frequently this meant they waited until it was too late (Weston, Qu, Parker & Alexander, 2004).

Economic insecurity is not only a factor in the delay of Australian women having children. Rather, it is a key reason in almost all OECD nations where women have delayed giving birth to children or are having fewer births than previous generations. For example, in Netherlands and Denmark the age at first childbirth has steadily increased over the last 30 years (OECD, 2002b:15). Additional evidence is provided by research which shows that between 1980 and 2000 the mean age at child birth in Portugal and Switzerland increased by 2.5 years and 3.5 years in New Zealand (OECD, 2004b:42).

Better educated women, in particular, are more likely to delay having children. For example, McDonald (2005) notes a negative correlation between fertility and women's educational status. One possible explanation is the effect that education has in increasing the value of women's time and their labour market opportunities. This increases the opportunity costs of time spent raising children (Grant et al, 2004:22). Other reasons include waiting until study is completed and a career established as well as the need for paid employment to repay student debt. For example, recent Australian research showed that 22 percent of university graduates remained childless compared to 11 percent of women with no post school qualifications (Franklin & Tuono, 2004:38). In the majority of cases the results were the outcome of circumstantial pressures rather than preferences. Years of study impinged on the fertile years of women students. Those who went on to professional work found that jobs involved long hours, were demanding and in some cases were also insecure.

The impact of student loans on fertility rates has been recently debated in New Zealand. To illustrate, the 2004 University Students Association Income and Expenditure survey of 3,969 students found that 60 percent of female respondents stated that their student loan would influence their decision to have children. Moreover, 28 percent of female respondents stated that they would not have children until they were debt free (Robertson et al, 2006:47).

Taking time out to have children means a family dropping from two incomes to one with the prospect of mortgages and in many cases other debt still to be paid. There is evidence that in countries where home ownership rates are high and purchasing a home is the norm for adults in their late 20s, increases in housing prices have contributed to postponement of children (OECD, 2004b:42).

While the preceding examples illustrate policy frameworks which have impacted negatively on birth rates, there is considerable research showing that countries with favourable work-life balance policies experienced both high labour force participation among women and increases in fertility (Chesnais, 1996, Hoem, 1990; McDonald & Kippen, 2000; McIntosh, 1998). The Nordic countries provided examples. In contrast, countries where such policies were absent forced women to make choices between paid work and having children. As a result both labour market participation and fertility were lower. These points are fully discussed in a later section.

The preceding discussion has looked in general terms at the policy environment which surrounds women's decisions to have children. It is clear that there is an increasing tendency for women to delay or even forego having children. The following discussion looks specifically at population trends in New Zealand and their implication for the future economic functioning of society.

9.3 THE NEED FOR A PRONATALIST POLICY IN NEW ZEALAND

9.3.1 An Overview of New Zealand's Population Trends

In reviewing New Zealand's past and future population trends, both the age structure and population composition are considered. The age structure of the population is characterised by three demographic phenomena (Stephenson & Scobie, 2002:1). First, fertility rates have declined to below sub replacement levels, with the birth rate below the level required by the population to replace itself without migration. For example, for the year ended December 2005 2.0 births per woman were recorded (Statistics New Zealand, 2006). By contrast, between the years 1947 and 1973, referred to as the period of the baby boom generation, fertility rates exceeded 3.0 births per woman. A possible consequence of the falling birth rate is that by 2010, when the first cohorts of the baby boom generation are expected to retire, there will be a "fattening" at the top of the age-distribution pyramid. Third, the average life expectancy for newborn males has increased to 74.3 years, while that for females has increased to 79.6 years. Such increases further accentuate the upper part of the age-distribution pyramid.

In terms of the changing composition of New Zealand's population, a number of projections are made based on the assumption of medium fertility, medium mortality, medium labour force participation and 5,000 net migration per annum. Given these assumptions, numbers of persons aged 0-14 are projected to decrease in 2006 from 21.1 percent of the total population to 15.5 percent in 2051, the percentage of individuals aged between 15 and 64 is projected to fall from 66.5 to 59 percent, while the numbers of people aged 65 plus are projected to increase from 12.4 to 25.5 percent (Callister & Rose, 2001:7; Statistics New Zealand, 2006).

9.3.2 General Concerns over Fertility and Population Trends

Changes in the age structure and population composition give rise to a number of concerns. First, low fertility combined with falling mortality results in population ageing and changing dependency ratios. To illustrate, currently there are 5.5 people aged 15-64 for every person aged 65 or older. In 30 years the ratio is expected to fall to 2.7 individuals (Stephens & Callister, 2006:3). This in turn raises the question of how to financially support the growing population who are projected to be inactive in the labour market and dependent on others (Callister & Rose, 2001; Stephenson & Scobie, 2002).

Given the current commitment to universal provision of retirement income, the impact of an ageing population is concerning. Under current government policy, national superannuation is financed out of contributions paid by the taxes of the working population. Fewer workers supporting a greater number of retirees will place greater pressure on government budgets with the possibility of higher public deficits. For example, the cost of national superannuation at its current level of 65 percent of the average wage for a married couple is projected to exceed 9 percent of GDP over the next 50 years (McCulloch & Frances, 2001:2). This represents a significant increase in the claim on future public funds. Consequently, there will be greater pressure on the working age population in terms of labour force participation, longer working hours and increased productivity. As the population ages, the pressure on the health services will also be of concern.

Second, lowered fertility has the potential to lead to future labour supply shortages. The importance of young skilled workers in maintaining international economic competitiveness has been noted by several commentators. For example, Larsson (2003, cited in McDonald, 2005:1) claimed that 80 percent of new technology is obsolete in ten years, while 80 percent of workers obtained their qualifications more than ten years previously. The key point is that at the high technology end of the labour force older workers cannot substitute for younger workers. As each new generation of technology emerges, it is younger workers who assimilate new

technology while working in complement with older workers who have the capital, experience and ideas for its application. Countries with low fertility rates that ignore such a reality place their country's growth path at risk (McDonald, 2005:1). Moreover, declining numbers of working age individuals relative to the total population have the effect of reducing income per capita.

9.3.3 Conclusion

Fertility is at the core of a number of issues fundamental to the economic wellbeing of society. Potential impacts of lowered fertility include lowered growth in the working age population resulting in reduced GDP, declining income per capita and fewer workers supporting pensions for the retired.

With relatively high fertility rates by OECD standards in the past, New Zealand has not had an explicit pronatalist policy agenda. Given the realisation, however, that declining fertility and a changing age structure have important implications for the future of society, the link between government policies and fertility is likely to receive more attention. With this point in mind, this thesis looks at the case supporting universal child allowance as a possible pronatalist policy.

9.4 UNIVERSAL CHILD ALLOWANCE: AN EFFECTIVE PRONATALIST POLICY

9.4.1 Introduction

Universal child allowances have been used in some countries as an explicit policy to encourage people to have children. For example, in France the case for generous family benefits was legitimated by pronatalist concerns (Lewis, 1992:166). How successful are universal child allowances in achieving pronatalist objectives?

The first argument supporting universal child allowance as a possible pronatalist policy looks at a small number of international multivariate studies which have evaluated the impact of child allowances on people's decisions on when to start a family and how many children to have. The discussion provides a brief review of the results, and suggests that a correlation exists between monetary transfers and the decision to have children.

The second argument looks briefly at the pronatalist effect of Swedish policies. Social democratic countries such as Sweden, Finland, Denmark and Norway make active commitments to assist women in both paid and unpaid work. As a result family policies, which include

universal child allowances, have the effect of making prospective parents feel more secure about having children. By contrast, countries with liberal welfare systems, while appearing to offer choices to women as to how they prioritise paid work and family commitments, provide lower levels of public assistance than social democratic welfare systems (Esping Anderson, 1990). In Liberal countries, which include New Zealand, Australia, Canada and Britain, women feel pressured to choose between having a career and a family.

The question of why universal child allowance might encourage parents to have children is also addressed in this section. By looking at the attributes of regularity and reliability, an understanding of its pronatalist effect can be gained.

9.4.2 Success of Universal Child Allowance as a Pronatalist Policy

Two international studies are used to provide evidence of the link between universal child allowances and fertility. The first study, undertaken by Zhang, Quan & Van Meerbergen (1994), was based on Canadian data. In the second study Gauthier & Hatzius (1997) analysed data from 22 industrial countries.

Zhang, et al (1994), using time series data for the period 1921-88, examined the empirical effect of tax-transfer policies on fertility in Canada. The policies included tax exemptions for children, child tax credits, universal family allowances and maternity leave. Each policy effectively reduced the costs of raising children and was perceived as a subsidy for childrearing. Results suggested that tax exemptions, child tax credits and universal family allowances had significant and positive effects on fertility when considered separately and jointly (Zhang et al, 1994:197). The research, however, raised some key policy questions including the amount of increase required by each programme to encourage fertility rate increases to replacement level. For example, adjusting for inflation, the researchers calculated that universal family allowances would need to increase from \$389 (1988 value) to \$1,982 per child to boost fertility to replacement levels (1.7 children per woman to 2.1).

Robust analysis of the impact of cross-country variations in the relationship between financial assistance to families and fertility characterised the research undertaken by Gauthier & Hatzius (1997). Using regression analysis the study was based on the differences and similarities in the levels of government support across twenty two industrialised countries for the period 1970 to 1990. The policy instruments used were universal family allowances and maternity leave. While the research found that maternity benefits had no obvious effect on fertility levels, universal family allowances did (Gauthier & Hatzius, 1997:300). The results were consistent

with the view that the decision to have children was affected by direct costs which were lowered by universal family allowances, but not by the opportunity to take time out of work (Gauthier & Hatzius, 1997:300). The magnitude of the effect, however, was small. For example, a 25 percent increase in allowances for the first two children in a family increased fertility by 0.56 percent or 0.1 children per woman in the short run and 0.07 children per woman in the long run (Gauthier & Hatzius, 1997:302).

9.4.3 International Evidence: The Scandinavian Model

Countries with low fertility tend also to be those which, through their social institutions, make it difficult or unrewarding for women to combine paid work and family commitments (McDonald & Kippen, 2000). Given the choice between an uninterrupted career or having a child and withdrawing from the work force, women often choose not to have a child. By contrast, countries whose policies facilitate women to combine paid work and caring of children, including generous monetary benefits, maintain fertility rates.

Sweden provides an example of a country with a supportive policy environment in which mothers' continuing attachment to paid work co-exists alongside sustainable birth rates. It is also an example of a country displaying a clear relationship between birth rates and generous financial assistance policies. The following description of fertility trends, economic conditions and universal family allowance provision over the last 20 years illustrates this relationship.

A typical characteristic of fertility trends in Sweden is their concurrent movement with cyclical economic trends and generous family support. That is, fluctuating fertility levels are related in part to changes in universal family allowances along with other welfare entitlements (Hoem and Hoem, 1996:15-17; McIntosh, 1998:10). To illustrate, during the 1980s Sweden experienced an increase in its fertility rate to 2.14 children per woman. At the same time the baby boom was accompanied by growth in the proportion of women in the labour force from 78 to 81 percent (Kohler, 1999, cited in Grant et al, 2004:119). However, in the early 1990s Sweden experienced an economic crisis characterised by rising unemployment rates and cutbacks in the generosity of family policy. For example, family allowances were reduced from 750 Swedish Crowns (US\$115) per child per month in 1995 to 640 Crowns (US\$1000) in 1996 (Hoem & Hoem, 1996:12). During the same period total fertility rates fell to 1.52 children per woman. (Grant et al, 2004:121).

Concern by the Swedish Government at the marked fall in fertility during the 1990s and following an improvement in economic recovery, by the end of 1999 family allowances were

re-established to their prior levels. By 2001 they had reached a level of 950 Crowns per child per month (Grant et al, 2004:126). Based on past fertility patterns in Sweden, it is expected that prospective parents will be encouraged by the restoration of monetary support, and will respond by having children (United Nations, 1999:189).

9.4.4 Why Universal Child Allowance is a Viable Pronatalist Policy

The preceding discussion suggests there is a relationship between universal child allowances and increases in the rate of fertility. What properties do child allowances possess to encourage mothers to have children, or to allow mothers to have the number of children they want?

As regular and reliable sources of income for dependent children, universal child allowances have the potential to provide mothers with confidence to have children. This is because they contribute to the costs of raising children at a time in the family's lifecycle when large items of expenditure are incurred. For example, it is common for young families to be committed to mortgage payments, or if the parents have undertaken tertiary education there may be student debt to repay.

Moreover, as evidence provided from Swedish research shows, generous family allowances allow women to have children and at the same time maintain paid work. Again the regular receipt of family allowance ensures that income is available to contribute to the costs of children. However, the success of Sweden, where mothers have a choice but choose to have larger families and go out to work, comes partly from having a relatively generous universal family allowance. It also comes from the provision of good quality state subsidised child care and from long Paid Parental Leave. Although universal family allowance is an important step in encouraging larger families, it does need to be located in the context of a more family friendly set of social policies overall.

9.5 CONCLUSION

There is evidence to support the view that universal child allowances, a policy that reduces the costs of children, have a small but positive influence on fertility rates. For example, research conducted by Zhang et al and Gauthier & Hatzius estimated the impact on fertility of various economic variables including universal family allowance. Family allowances had a positive but limited effect on fertility in both studies.

Second, while the pattern of postponing and having fewer children has been consistent throughout the OECD countries, a striking exception is Sweden where generous monetary assistance means it is less of a financial concern to have children. Moreover, Sweden illustrates the premise that countries with family-friendly policies have lower recorded population decline than countries with limited support for women. As a result, not only are fertility levels maintained, but also attachment to the paid workforce is retained. One of the Swedish family friendly policies emphasised is that of universal family allowance. Effectively, universal family allowance assists in alleviating barriers to those who attempt to combine work with child bearing.

CHAPTER 10

BENEFITS OF UNIVERSALISM: CHILD ALLOWANCE EXAMPLE

10.1 INTRODUCTION

Universal provision improves resource allocation, minimises qualitative differentiation of service, is politically sustainable because of the wide spread of beneficiaries, and performs an important socially integrative function by underpinning rights of citizenship (Bertram, 1988:135).

The preceding chapters presented a variety of arguments for universal child allowances, each based on a problem or issue relevant to New Zealand families. There are a number of arguments supporting universal child allowances which are in addition to those already outlined. These centre on the general advantages of universal benefits, and include the attributes of simplicity, regularity and reliability. In addition, universal benefits are non-stigmatising and, therefore, their take-up rate is maximised.

An argument is also presented suggesting universal benefits contribute to social cohesion. For example, child allowance as a universal policy is a means of connecting families in society through a common bond; that is all families with dependent children have a stake in the welfare state and, therefore, an interest in protecting it.

The final section of this chapter takes a slightly different approach, and addresses two arguments posed by critics of universal benefits. These concern the affordability of universal benefits and their effectiveness to deliver assistance to those in need.

10.2 THE BENEFITS OF UNIVERSALISM OUTLINED

10.2.1 Universalism and Simplicity

Simplicity is what makes child benefit special. It is paid as of right, with no complex forms or means test, so nearly everyone gets it. With most benefits some fall through gaps in the system, but this is a payment parents can rely on, whatever else is going on in their lives (In Praise of Child Benefit, 2006 August 7).

There are several aspects of universal benefits which contribute to their simplicity. To illustrate using universal child allowance, besides being relatively easy to apply for, it only has to be

claimed once in each child's lifetime. Moreover, the qualifying rules are simple to understand, and its structure does not change as children get older. As a universal entitlement, child allowance is not affected by the separation of parents, whether parents are married or unmarried or whether parents move in and out of paid work.

The simplicity of universal benefits means that their costs of compliance and administration are less. Issuing agents are not required to monitor if qualifying income levels have been exceeded and overpayments or underpayments made. The savings in administrative costs of universal benefits are illustrated by the following example of the costs of child assistance in Britain. In 2004/05 1.05 pence per 1 pound was spent on administering universal child benefit compared with 3 pence per 1 pound spent on managing the means-tested child tax credit (Bennett & Dornan, 2006:8).

10.2.2 Universalism and Reliability

One of the powerful properties of universal benefits is their reliability resulting from their regular timing and certainty of amount. In the case of universal child allowances, their regularity and reliability provide a source of security and stability to children and their parents in a constantly changing environment. This point is particularly pertinent given the growing proportion of part-time and temporary jobs and the breakdown of parental relations. When primary caregivers are struggling to meet the costs of basic necessities of raising children, the regularity and certainty of universal child allowances mean they continue to be paid. There is an assurance that food can be bought, clothing acquired, school activities funded and medical costs paid to name but a few of the parental obligations.

A significant advantage of universal child allowances is that they follow the child through changes in family circumstances. As we have seen, times of transition in the life of the family are often associated with severe or persistent child poverty. Attachment of the allowance to the child makes child allowances a thoroughly modern benefit, and one which differentiates them from means-tested support where a new claim is required to be filed as partnership status changes (Brown, 1988).

The stability provided by universal child allowance when families are presented with change is an attribute widely appreciated. For example, one respondent in the 2006 British GEN5

survey¹³ expressed the following in contrasting the stability of child benefit with the family's experience of income based child support:

Child benefit isn't like that; it goes towards the kids and it's a set amount, doesn't matter what the circumstances. But the others are all forms and paperwork...it's not worth the hassle (Respondent in GEN5 Study, cited in Bennett & Dornan, 2006:10).

10.2.3 Universalism and Stigma

Stigmatisation occurs when individuals believe that as a result of claiming public assistance, they are marked out from their fellow citizens as different in a negative sense. It is likely to arise when the process of applying for assistance involves detailed and intrusive enquiries into personal and financial circumstances (Mackay, 2001:33). Recipients of universal entitlements are not subjected to such enquiries to the same degree.

To illustrate, a 1984 British study commissioned by the Department of Health and Social Security (DHSS) analysed recipients' attitudes to universal child benefit. It was perceived as different from most state benefits, particularly in terms of stigma. Recipients felt there was no shame in receiving it. Accepting universal child benefit said nothing about one's circumstances beyond the fact of being a parent. As Hedges & Hyatt (1985:35) reported, it was generally "*uncontaminated by unfavourable images of state charity*". Rather than considered charity, universal child benefit was seen as a basic right of parenthood. Its status as an unquestioned right stemmed partly because it was given automatically to all parents without a means-test and partly from the emotional power of people's image of children's needs (Hedges & Hyatt, 1985:37).

Survey results also indicated that child benefit was non-controversial. Supporting children was acknowledged as a commendable goal, and, therefore, the benefit itself was not bound up in contentious issues which tarnished the image of other benefits. The following quote taken from the survey summarises these points.

We would feel that we were spongers and lose a bit of pride. We like to earn our money and budget accordingly. What I was saying about the family allowance, you just go in the post office, you hand your book over. There's no loss of pride in that is there. You haven't got to do a means test for that and declare every penny that you've

¹³ The survey was undertaken in 2006 for the Within Household Inequalities and Public Policy research project for the Gender Equality Network (GEN5) funded by the Economic and Social Research Council (see www.genet.ac.uk)

got coming in. I find those mean test things – well I feel that they would be very embarrassing to go through it (Hedges & Hyatt, 1985:36).

To summarise, Titmuss (2001:116) argued “*There should be no sense of inferiority, pauperism, shame or stigma in the use of a publicly provided service; no attribution that one was being or becoming a public burden*”. In terms of universal child allowance, the emphasis is on the social rights of all families with dependent children to receive an allowance provided by society. As they have a sense of entitlement, families are not humiliated when they receive it.

10.2.4 Universalism and Take-up

If targeting is the central aim of the benefits system, then in one important sense universal benefits are better than means-tested ones, for virtually everyone entitled to them takes them up (Peter Kellner, the Guardian, 1988 November 12, cited in Bennett & Dornan, 2006:8).

Statistics showing the take-up of universal child benefit in Britain reinforce the claim that universal benefits have much higher take-up rates than means-tested benefits, an important characteristic in preventing poverty. To illustrate, universal child benefit has an almost universal take-up, with a recent Government estimation of 98 percent (House of Commons Hansard, Written Answers 7 March 2006, cited in Bennett & Dornan, 2006:8). In contrast, the means-tested child tax credit reached 79 percent of those eligible in 2003/04 (HM Revenue and Customs, 2006, cited in Bennett & Dornan, 2006:8).

There are a number of reasons why universal benefits typically have near one hundred percent take-up. These include the certainty over eligibility criteria, abundant information on how to apply for them, the absence of stigmatisation and intrusiveness, administrative simplicity and the absence of exposure to detailed financial investigations when making an application (Atkinson, 1993:47; Mackay, 1998:33; Parks, 1996:1; Saunders 1994:311).

Little empirical evidence on the take-up of benefits exists in New Zealand. However, Foubister’s research on the take-up rates of second tier means-tested programmes, including Family Support and Guaranteed Minimum Income (GMI), provided some indication. The research showed an estimated take-up rate for Family Support of 61.2 percent and between 65 and 70 percent for Guaranteed Minimum Family Income (Foubister, 1991:51,55).

Further evidence was provided by a recent newspaper article published in the New Zealand Herald (Collins, 2005). The article suggested that \$86 million budgeted for family assistance in 2004 remained unclaimed. The implication of such a large under-spend is the underlying

problem of ensuring those eligible for selective benefits accessed their entitlement. For example, the Treasury's pre-election fiscal update disclosed that the Government budgeted \$932 million for Family Support in the financial year to June 2005. However, only \$846 million was actually spent. In terms of numbers, by June 2005 200,000 families had received family assistance, 60,000 fewer than the number who were believed eligible.

Each of these examples reinforces the notion that means-tested benefits, because of their inherent complexity, stigma and lack of information on eligibility, have lower take-up rates. By contrast, universal benefits do not suffer these negative attributes to the same degree and are, therefore, more accessible to the people they are designed for.

10.2.5 Universalism and Social Cohesion

A particular feature of society, which is increasingly relevant to critics of public policy, is that of cohesiveness. When analysing individual policies, it is common for the degree of social cohesiveness resulting from a particular policy to form part of the commentary. The term social cohesion refers to national unity, a sense of community belonging, social solidarity and living in a society devoid of divisiveness and social differentiation. What effect do universal benefits have on contributing to social cohesiveness; are they unifying or divisive? In answering this question various dimensions to the concept of social cohesion are looked at.

As already discussed targeted policies have the potential to create problems of stigma and loss of privacy. By contrast, universal policies are available and accessible to the whole population in such a way as to avoid the loss of status, dignity or self respect of users (Titmuss, 2001:116). In this regard they prevent differences amongst members in society from public display. As such, universal policies reduce rather than foster social differentiation (Boston & St John, 1999:105).

When benefits are means-tested, low standards are considered sufficient for the poor who also do not receive the benefits of improved national prosperity (Brown, 1988). The poor are, however, expected to take a major share in any economic cuts that are deemed necessary. As the poor are separated in this manner, there is little public protest from more affluent and more powerful members of society. Instead of a sense of national unity, in which all share the benefits of improvements in the national standard of living and all take their fair share of harder times, a divided nation emerges (Brown, 1988:25). Isolating the poor from the rest of society is detrimental to all. On the contrary, the poor are better served by benefits in which all persons have an interest, and which promote the integration of low income people into the wider society.

As the International Labour Organisation (1984, cited in Brown, 1988:25) argued, a more unified nation could result by keeping or implementing universal benefits which contribute to a nation's sense of community, inter-dependence and national solidarity.

The concept of social compassion is also relevant. Targeting combined with a political ideology emphasising self-reliance and independence encourages an attitude of individuals "*standing on their own feet*" (Mulgan, 1991). In turn, this reduces the political consent for remaining levels of welfare as increasing numbers are encouraged to view dependence on welfare as personal failure. The excessive pursuit of independence from state support then reduces the sense of shared identity and sympathy among citizens. Such a self centred, individualistic approach to society is without compassion, caring and concern for others. This thesis argues that this is not the type of society that we would want New Zealand to become. Rather, society should be concerned with building a strong sense of community, common identity and citizenship. However, to achieve this society needs to ensure that there are at least some social institutions that are shared by the whole population. There can be little doubt that a universal child allowance, in which all families with children benefit, is a good example of a policy tool which can build a strong sense of community and at the same time foster social cohesion.

10.3 UNIVERSALISM: ANSWERING THE CRITICS

10.3.1 Introduction

In a liberal nation such as New Zealand, where the emphasis is on means-tested welfare, there are those who criticise universal policies. The final part of this chapter addresses two common arguments presented by those opposing universal benefits. The first concerns the argument that in a world of scarce resources, it is better that benefits are targeted to only those most in need. The second concerns the argument that means-tested benefits are more effective in achieving policy objectives.

10.3.2 Universal Benefits and Resource Scarcity Arguments

Introduction

Universal benefits such as universal child allowance are frequently criticised on the basis that, in a world of resource scarcity and fiscal constraints, it is better that limited public funds are targeted to those in greatest need (Shipley, 1991:17). In terms of family financial assistance, the argument suggests that targeting enables governments to be more generous to eligible families

than if all families with dependent children were included. The explanation usually given is that universal programmes spread a lower level of assistance across the relevant group. Given a fixed quantity of public resources, those on low incomes receive insufficient while those on high incomes receive unneeded assistance (Boston & St John, 1999:95).

New Zealand's Labour Government also supports such a view. When asked by Radio New Zealand Journalist, Linda Clarke, to explain what is wrong with universal child benefits, Minister of Social Development, the Honourable Steven Maharey, replied with the following:

Nothing if you are a Social Democratic Party like mine. You would agree with the general principle that the reason you have universality is because of the principle of inclusion, that you want everyone to take part in what is being given out – if you pay taxes you get something back. However, it is simply money. You have to decide how much you can give children making a real difference and if you spread it too thin you don't make that difference (Maharey, 2005, 31 May).

The validity of what seems superficially to be a compelling argument is now examined.

Are Selective Benefits More Generous?

Logic suggests that given limited resources, a targeted regime is more likely to provide the most generous way of satisfying basic needs and ensuring a minimum standard of living for all. There are, however, two arguments relevant to New Zealand which undermine the case for targeting on the basis of generosity.

Appreciating the first argument requires looking at previous government policies. It is obvious that more generous levels of financial assistance, supposedly resulting from targeting, have not always eventuated. For example, in 1991 rather than producing generous levels of assistance, targeting resulted in substantial cuts in the nominal value of welfare payments with the exception of the invalid's benefit (Boston & St John, 1999:95). Moreover, stricter eligibility criteria for all benefits were introduced along with the abolition of universal family benefit. According to Boston (1999:13) the changes reduced the disposable incomes of many beneficiaries by as much as 30 percent. Such policies are not evidence of more generous levels of assistance.

Means-testing welfare benefits, in fact, facilitates lower rather than greater levels of financial support for the neediest families (Boston & St John, 1999:96). This is because targeted welfare programmes are more vulnerable to government expenditure cuts than programmes that are more inclusive and assist the middle and affluent classes (Barry, 1990:74; Goodin & Le Grand,

1987:203). People are more willing to pay taxes to fund programmes that benefit them personally than those that assist only the poor. It is, therefore, politically more difficult for governments to reduce expenditure on social programmes that benefit a large proportion of the population. This is particularly true if those who benefit are well equipped to defend their interests; better off middle-class citizens are generally better at such tasks than the poor. For example, old age pensioners succeeded in repealing the 1991 Budget proposal to reinstate the former National Superannuation policy with its higher surcharge and lower threshold (Boston, Dalziel & St John, 1999:306). The more severe cut-backs affecting other beneficiaries remained in place.

Are Universal Benefits Affordable?

The second argument which questions the need for a targeted approach on the basis of resource scarcity looks at the claim that budget constraints prevent a return to universal benefits. A review of public operating balances provides an insight into the validity of the claim.

Prior to the 2005 General Election and in accordance with the requirements of the Public Finance Act 1989, the New Zealand Treasury released updated economic and fiscal data. Of particular interest was the government's future fiscal operating surpluses which were projected to be substantial. One of the key contributing factors to the size of the surpluses was the revised 2005 Budget estimates of tax revenue. With forecasted expenditure expected to remain relatively unchanged, greater operating balances were anticipated. For example, the operating balance is forecasted to produce a surplus of \$29.1 billion during the period 2004/05 to 2008/09 (Cullen, 2005:27). Annual estimates are projected to be 30 June 2005, \$5.766 billion; 2006, \$7.793 billion; 2007, \$6.344 billion; 2008, \$4.217 billion and 2009, \$5.512 billion.

Given the projected operating surpluses, the argument for budget constraints and vigilance in the use of scarce resources does not have the same credibility as it may once have had. Rather, such surpluses suggest that given a more prosperous economic climate, it is an appropriate time to debate the merits of reintroducing universal benefits such as a universal child allowance.

10.3.3 Universalism: The Effectiveness Argument

Much of the criticism of universal benefits centres on how effective they are in delivering financial assistance and achieving policy objectives. Effectiveness is viewed as assessing whether the system meets its targets such as reduced child poverty. It is suggested that higher levels of assistance can be made available to the less prosperous members of society if those

who are better-off are excluded and, therefore, there is a greater chance that the stated social policy objectives will be achieved (Mackay, 1998:32). In a similar vein Atkinson noted:

For policy makers, there is much appeal in the idea that the existing total of transfers can be reallocated to increase their effectiveness in combating poverty. And simple arithmetic seems to support this view (Atkinson, 1995a:223).

Atkinson also pointed out, however, that the processes of ensuring resources go only to those most in need was very much an arbitrary “hit and miss process” and one characterised by a number of systemic inefficiencies. The following quote pertaining to the United States presents statistics to support Atkinson’s claim.

In 1993 outlays on means-tested cash assistance totalled \$31 billion. In that same year, the poverty gap, measured before the receipt of any means-tested transfers, was \$63 billion. If all the money had been effectively targeted on the poor, it should have reduced the poverty gap to \$32 billion, essentially cutting it in half. In fact the poverty gap, measured after the receipt of transfers, was \$47 billion, implying that only \$16 billion actually reached the poor (Sawhill, 1988, cited in Mackay, 1998:32).

Rather than criticising the lack of effectiveness surrounding universal benefits, a more logical approach would be to analyse the extent to which effectiveness is achieved through means-testing. In other words, does means-testing successfully deliver to those in greatest need? The above example suggests that it may not.

An insight into the effectiveness of means-tested schemes is provided by looking at their design and complexity. In comparison to universal benefits, means-tested policies are complex which according to Mackay (1998) may be the result of the way means-tested policy was developed. To illustrate, New Zealand’s targeted family assistance programmes were not designed on the basis of empirical studies of population need, but rather through a process of incremental adjustment (Mackay, 1998:32). Additional assistance was given to one group at a time, and additional countervailing assistance added subsequently for the benefit of other groups. Moreover, MacKay argued that the basis of such decisions was influenced by lobbying of interested groups, responses to media reports, findings of research studies, the state of national finances, political perceptions about the relative merits of varying options and political bargaining by coalition partners. As a result of these forces, family financial support was complex in its eligibility criteria, payment rates and its rules. The more complex the targeting system the more difficult it was to be confident that assistance is received by those whom the benefit was designed for (Mackay, 1998:33).

The effectiveness of means-tested schemes is also determined by a number of additional factors. These include the degree of take-up of financially assisted programmes, intrusiveness of targeted regimes necessitating an enquiry into personal circumstances of claimants and stigma arising due to negative public attitudes. The reluctance of claimants to apply for assistance, in turn, impacts on the efficacy of the particular policy to successfully provide financial assistance where it is needed.

To summarise, the complexities of means-tested benefits call into question claims that such benefits are more effective than universal benefits. In comparison, universal benefits such as universal child allowances are less complex in their eligibility criteria, rules and payment rates. For example, as a policy available to all families with dependent children, universal child allowances are less intrusive into individual family's financial status and there is no stigma attached to their receipt. As a result history shows that take-up rates are substantial. For these reasons, universal child allowance is likely to be as effective if not more so than means-tested family assistance.

10.4 CONCLUSION

This chapter began by looking at the attributes of universal benefits which make them particularly appealing. In terms of universal child allowances, their simplicity, reliability, lack of stigma and their relatively high take-up rate make them a particularly useful benefit to achieve their stated objectives. These include contributing to the costs of children, reducing poverty, increasing family financial security and contributing to a more cohesive society.

The final part of the chapter examined the robustness of arguments in favour of means-testing. The case for greater targeting is based on the assumption of a fixed total budget for social security and the belief that targeting enables greater generosity to eligible families with children. In reality, evidence suggests that targeting is popular with policy makers because it lowers the fiscal burden on the state. The argument suggesting that targeting provides greater assistance to needy families appears to be less important. Moreover, given the size of New Zealand's current operating surplus, the budget constraint argument opposing universal family assistance is no longer as convincing.

Means-testing is also defended on the grounds of efficacy. Policy-makers in liberal nations tend to argue that means-testing ensures scarce resources go to those most in need. Policy objectives are more likely to be achieved. However, the effectiveness of targeting is compromised for several reasons. Administrative complexity results in confusion over eligibility of qualifying

criteria, payment rates and the interpretation of rules. Further, effectiveness depends on the extent to which families are willing to provide information. Very often the intrusiveness of such regimes is off putting to potential clients. The stigma attached to certain benefits also leads to reluctance to make claims.

All of these points call into question the claims made by proponents of means-tested benefits that they are more generous and effective in achieving their stated policy goals. The fact that New Zealand has not been as successful as other countries in reducing child poverty provides doubt as to their effectiveness. Given the surplus in the public purse, the time is right to introduce a universal policy such as universal child allowances. While this chapter has highlighted the properties that make universal benefits appealing, there are also numerous examples throughout this thesis of nations whose belief in the strengths of universal benefits have meant they are an integral and successful component of their welfare systems. The fact that child poverty is less and mothers' attachment to paid work is greater while they continue to have children is testimony to the power of universal benefits.

CHAPTER 11

CONCLUSION

11.1 INTRODUCTION

This thesis began with a quote from Marilyn McLachlan, a young New Zealand mother whose aspirations for her children and the desire to be a model parent were marred by financial concerns. It is appropriate that the concluding chapter also begins with McLachlan's words.

I would like to see a return to the Universal Family Benefit – something that individual families can choose how to use. How wonderful it would be to have a nation that adhered to the United Nations Convention that realised that families have special needs and circumstances, that they would like to have balance in their lives and be able to work and spend time with their kids. It (universal family benefit) would eliminate the bureaucratic red tape and the many dollars spent paying people to monitor everyone's income, chasing up those who have been overpaid or underpaid. A flat rate would allow people autonomy, enabling those wonderful kiwi attributes such as innovation and enterprise to thrive. A universal family benefit means that people are left with dignity. It is not: Gosh come to us and prove how poor and needy you are and we can be your guardian angel and give you money. This approach is demeaning and insulting. How nice to have a society that acknowledges and supports the reality: happy parents make for happy kids, and happy kids make for a happy future society (McLachlan, 2005:241-243).

Finding it difficult to understand why her family received little government support when her husband was paying taxes, repaying a student loan and teaching the next generation while she was at home raising four children, McLachlan became the voice of middleclass New Zealand families calling for the government to provide greater financial help. The final section of her book *"The New Parent Code 12 Vital Clues to Achieving Modern Family Sanity"*, while congratulating the Labour Government on its 2004 Budget improvements to family-friendly policy, argues that *"they did not go far enough"* (McLachlan, 2005:242). To McLachlan and the many other New Zealand middle class families, a policy that would see government "going further" would be to bring back universal family benefit. This thesis has outlined the reasons for returning to universal family benefit (universal child allowance). The practical and principled arguments are highlighted in this closing chapter.

11.2. CONCLUDING COMMENTS: WHY UNIVERSAL CHILD ALLOWANCE?

This thesis has outlined a number of issues facing New Zealand families, and presents a case for why universal child allowance would help address these. In doing so, it is argued that a number

of important policy goals would be met, while at the same time the wellbeing of families with dependent children would improve. The following discussion summarises the policy challenges identified in this thesis, and discusses the role of universal child allowance within their context.

Although the extent of child and maternal poverty in New Zealand has improved, it remains unacceptably high with approximately one fifth of all dependent children living in poverty (Ministry of Social Development, 2006a). As we have seen there is evidence of children and their mothers going without basic nutritious food, having to postpone doctor's visits and children unable to participate in school activities because of inadequate family income (Krishnan et al, 2002)

This thesis acknowledges that the policies of the three post-1999 Labour led coalition governments have had some effect in improving the financial status of families. The Government's primary emphasis has been on policies which encourage parents to return to paid work. There is little doubt that the increased tax based aid provided by policies such as Working for Families will improve the living standards of some families (Nolan, 2004; Johnson, 2005). However, as we have seen anomalies inherent in means-tested welfare to work policies lead to inequitable outcomes and are insufficient for lifting all families above the poverty line. The discriminatory aspect of the In-work Payment part of Working for Families, which penalises approximately 230,000 children, is a prime example of those who are unable to work and who will not benefit from the package (Child Poverty Action Group, 2006). These parents will remain in chronic poverty because welfare to work policies provide them with little financial assistance. Moreover, when parents are able to move into paid work, the discouraging effect of income threshold levels and abatement rates mean that means-tested family assistance declines as income increases. Parents receive few rewards for exiting the benefit system, and for attempting to move into better paid work. They often end up being caught in poverty traps (Brown, 1983).

The rise in child and maternal poverty has taken place within the context of changes in family structure. This is partly a result of the increasing number of partner separations where children are involved. Typically the income of the parent left caring for the children, usually the mother, declines. This happens not only during the time while new financial arrangements are being agreed, but often for many years afterwards. For lone mothers reliant on low state benefits, ongoing poverty is the norm. Lone mothers and their children are the largest group in poverty in New Zealand (Ministry of Social Development, 2005). Sometimes moving into paid work does not solve the problem of low income, but often means that mothers have too little time to spend with their children. The plight of lone mothers is made worse because the policy

environment, based on liberal welfare regimes, emphasises individual responsibility and means-testing (Parker & Patterson, 2003). Those who have the capacity to move into paid work believe that their situation will improve, but in fact because women's average incomes are less than men they are little better off.

However, it is not only lone mothers who are marginalised. Mothers in general have lower disposable incomes because of limited opportunities for well paid employment, a labour market which continues to discriminate and greater responsibility for unpaid care of children. Effectively, motherhood lowers the pay of mothers because some leave the labour force or work part-time when they have children. When they return to work their earnings suffer from the loss of experience or seniority (Budig & England, 2001). Further, some mothers in two parent households suffer financial hardship because family income is not equitably divided (Lister et al, 1999). At the same time, it is common for mothers to meet the needs of other family members first while they themselves go without. It is also common for mothers to spend most on children (Lundberg et al, 1997). If mothers' incomes are scarce and their abilities to meet the family's ongoing expenses are compromised, the stresses of managing poverty can lead to poor physical and mental health (Ghate & Hazel, 2002). This in turn affects mothers' abilities to be effective parents (Women's Budget Group, 2005). It also affects mothers' abilities to improve their financial situation by taking on paid work, and so the spiral of low income, increasing stress and poor health continues.

This thesis has argued that supporting family incomes with adequate child-related support is an essential component of ensuring that every child has a decent start to life, and every mother is entitled to carry out the nurturing role free from financial stress. Sufficient financial support must be available because children and mothers have a right to freedom from poverty. To this end, the thesis has presented evidence that universal child allowances have a vital role in preventing child and maternal poverty.

As an unconditional benefit, universal child allowances provide additional reliable income to families where there are children to support. Paid on a regular basis to the primary carer, commonly mothers, the allowance subsidises the costs of child rearing and, therefore, reassures mothers that money will always be available to meet the ongoing costs of raising children. Such properties are particularly important in households where changes occur either in family structure or in employment status. As we have seen there have been significant increases in the number of lone parent households with dependent children. When parents separate and one parent is awarded child custody, because universal child allowance follows the child, money is available to meet the ongoing costs of childrearing.

This thesis has argued that in order to solve the child poverty problem, social policies must recognise the connection between mothers' and children's poverty. Universal child allowances are a policy which recognises this connection. By paying the allowance to the primary caregiver, commonly mothers whom studies show are primarily responsible for spending on children, who frequently go without to meet the needs of other family members and who are the poverty managers in families, an assured regular and reliable source of income is available to pay for children's basic necessities. Not only is this important from the perspective of children's wellbeing, but also mothers. Indeed, universal child allowances concern the practical aspect of providing regular and reliable income for children, but they are also a means of providing mothers with a degree of financial independence. In this respect, universal child allowances empower mothers.

The empowerment of women and the eradication of poverty were referred to within the context of the 2000 United Nation's Millennium Goals. This thesis has cited a number of international studies which show categorically that universal child allowances are important in contributing to mothers' financial independence (Hedges & Hyatt, 1985; Walsh & Lister, 1985). For mothers who give up a regular income source from paid work to have children, the benefits of universal child allowances are both practical and psychological. The practical aspects have already been mentioned and include the flexibility to meet expenses without having to ask for extra resources or justify spending. The psychological aspects are equally important. Having additional income which is under mothers' control, means knowing that money can be prioritised according to their discretion and for which they are not accountable to a male partner. This is particularly empowering to mothers.

Countries which have adopted universal child benefits, along with means-tested policies as part of an integrated package, have had remarkable reductions in child poverty rates. There are social democratic countries such as Sweden that have generous universal family allowances as part of an overall welfare system. These countries provide a high level of support to families with children and have extremely low rates of child and maternal poverty (Solera, 1998). There is also the example of Britain which in recent years has combined its universal child benefit with a range of selective benefits. In particular, Britain has increased the level of payment of its child benefit. Although Britain still has child poverty levels higher than the social democratic nations, it has been successful in reducing child poverty rates significantly (Brewer, 2004).

This thesis has looked specifically at Britain where practical lessons on how to reduce child poverty are easily available for New Zealand policy-makers. The reason for this is that Britain is another liberal nation, and a great deal of political learning takes place between it and New

Zealand. As we have seen, in reversing the trend of rising child poverty, the British Government introduced a more generous and less tightly targeted financial assistance package (Piachaud & Sutherland, 2001; Orange, 2004). The overwhelming contrasting feature between policies adopted by Britain to reduce child poverty and those of New Zealand was the role of a boosted universal child benefit. Given the New Zealand Government's obsession with incentives to encourage parents into paid employment and the absence of an equivalent universal child benefit, it is questionable whether New Zealand will match Britain's reduction in child poverty. The fact that Britain, traditionally a liberal nation, has retained universal child benefit to help achieve impressive progress in reducing child poverty is all the more remarkable. This provides a clear illustration that universal child allowances are equally feasible in nations with liberal traditions such as New Zealand.

While New Zealand's economic environment has been characterised by economic growth, it has also been characterised by skill shortages and low labour productivity (OECD, 2004a). The OECD has argued that in order to meet these challenges and improve the living standards of New Zealand families, greater involvement in paid work is required by under-represented groups such as lone parents and mothers with young children (OECD, 2005a). In accordance with the OECD's recommendations, labour market and welfare policies have been developed around the goal of employment. Such policies are an attempt to create the conditions under which parents and mothers, in particular, can support themselves through paid employment. Improvements to Paid Parental Leave, child care subsidies and the means-tested Working for Families package are examples of policies aimed at achieving these challenges.

While improvements to Paid Parental Leave and child care subsidies are welcomed, means-tested child payments inherent in Working for Families have the potential to create disincentives to paid work (Stephens & Callister, 2006). This is because of the overlap between income tax and the progressive withdrawal of child assistance as earnings from paid employment increases meaning that employees receive little reward for their efforts to earn extra money. For low income families whose disposable income does not increase along with increased work effort, unemployment and poverty traps can result. In other words, people on the upper margins of eligibility may face penalties for increasing their income by even small amounts. If they take up employment the income they earn may then make them ineligible for all or part of the assistance.

At a time when mothers are being encouraged to return to paid work, it is important to consider those benefits which make it more worthwhile to go out to work. Universal child allowances are unconditional, so that if mothers go out to work they keep the allowance which makes them

better off and avoids poverty traps. For families receiving universal child allowances, the choices for mothers to work or increase their hours of work are not complicated by the fear of losing financial assistance. As child allowances are paid on a universal basis, they do not increase the marginal tax rate of families and are not withdrawn as income from paid work increases. They, therefore, do not have work disincentive effects. This means that universal child allowances fulfil the criterion for welfare measures to promote economic and social welfare aimed at encouraging independence. They provide a floor for families to build on by their own efforts, rather than a ceiling trapping them into long-term poverty or near poverty.

International evidence shows that countries where mothers receive universal benefits have higher rates of attachment to paid work than in liberal nations, while the same time ensuring that mothers are not discouraged from having children. As we have seen Sweden is an example of a country where family-friendly policies have enabled the achievement of these two policy goals (Hugo, 2000). A number of features enable Swedish parents to combine attachment to paid employment and running a home. Inducements include generous monetary benefits such as universal family allowances, comprehensive state child care services and parental leave policies (Hoem & Hoem, 1996). The example of Sweden indicates that given appropriate forms of financial assistance, mothers will choose paid employment. It is clear that universal child allowances, because they do not interfere with the decision to take up paid work, is an appropriate policy.

Current New Zealand demographic trends include a falling birth rate and an ageing population, with resulting concerns for the future size of the work force and the ability to fund a state funded pension scheme (Callister & Rose, 2001; Stephenson & Scobie, 2002). While the decision to have children is influenced by many factors, increasingly it is determined by concerns over the costs of raising children. The decision is also influenced by the socio-economic policy environment which more recently has inadvertently resulted in women having fewer children. Because of cuts in welfare spending, increasing levels of student debt and less secure employment, prospective parents are now waiting until they are in a more secure financial position before having children. In some cases couples are choosing not to have children at all.

Liberal nations such as New Zealand with falling birth rates tend also to be those whose policies make it difficult for prospective mothers to combine paid work and having children (McDonald & Kippen, 2000). Women (and indeed men) are hesitant about having children if they fear they will not be able to adequately support them in the years ahead. For this reason many women in liberal nations are delaying having children until they are established in a career and have their

own home. Unfortunately, for many this means waiting until their most fertile years have passed.

By contrast, social democratic countries like Sweden whose policies assist women to combine caring for children with paid work, maintain a satisfactory birth rate (Hoem & Hoem, 1996; & McIntosh, 1998). There are policy lessons for New Zealand in observing Sweden's labour market and birth rate trends. Swedish family friendly policies include generous monetary benefits such as universal family allowances. Mothers are given confidence to have children knowing that although the period of childrearing is costly, universal family allowances provide additional regular and reliable income to meet such expenses. Moreover, as we have seen the evidence provided by the two studies quoted in this thesis reinforces the claim that lowering the direct costs of having children through universal child allowances influences the decision to have them (Zhang et al, 1994; Gauthier & Hatzius, 1997).

In liberal nations there is a tendency to view children as just another kind of consumer good chosen by their parents in preference to other goods. That is, having children is an individual, lifestyle choice and, therefore, parents are fully responsible for the costs of raising children. As we have observed the costs of raising children in the 21st century are substantial (Percival & Harding, 2005).

If parents are effective in their role, children will grow up to be caring and productive adults contributing to the wellbeing of society (Wynn, 1970). Today's children will grow up to be tomorrow's workers and taxpayers and will pay for the public services and net transfers enjoyed by those who are retired. As these are future benefits of children enjoyed by people other than parents, society has an interest in supporting children's development over and above parent's own interest. Given that society will eventually enjoy the benefits of children, this thesis argues that society has an obligation to help pay for the costs of raising children. One way to ensure that all members of society contribute to the intergenerational benefits of children is to pay parents a tax funded benefit in the form of universal child allowances; a symbolic recognition of the socially useful task performed by parents in raising children. Eleanor Rathbone, who fought so hard for family allowances in Britain, summarised these ideas when she wrote the following:

Children are not simply a private luxury. They are an asset to the community, and the community can no longer afford to leave the provision for their welfare solely to the accident of individual income (Rathbone, 1940, cited in Invest in children, invest in the future, 2006 August).

Universal child allowances by their very nature share the general advantages of universal benefits. This thesis would be incomplete if these were not acknowledged. The characteristics of universal benefits include their payment on a regular and reliable basis and, therefore, their availability when needed. In the case of universal child allowances, such characteristics are vitally important for primary caregivers in times of financial instability and uncertainty. At the same time universal benefits are relatively simple to claim, and are designed in such a way that they reach the vast majority of those for whom they are intended. Obtaining them does not require complex negotiations with the tax or benefit authorities. It is unsatisfactory to assume that because a particular benefit is available, it is up to eligible people to claim it. In the case of universal child allowances, if the community's responsibility for its children is to be met, there is a positive requirement to ensure the take-up by those eligible. The fact that child allowance is universal facilitates this process.

While means-tested financial assistance tends to isolate certain categories of people, involves loss of dignity and privacy and stigmatises the recipient, universal benefits act to integrate people into the community (Boston & St John, 1999). That is they foster a sense of belonging to a society which cares about its people. A society that is concerned with creating a sense of community spirit does so by ensuring that there are certain social institutions that are shared by the whole population. Universal child allowances, in which all families receive a common benefit, are a means of developing a sense of community, solidarity and cohesion.

New Zealand's current political emphasis on means-tested policies has given rise to a number of criticisms of universal benefits. Two in particular come to mind: the limited availability of public resources and the greater effectiveness of targeted policies in achieving government objectives. In terms of the first criticism, the most common pragmatic reason provided by critics for applying a means-test concerns the affordability of government to fund universal programmes. It is frequently claimed that budget constraints prevent a return to widespread use of universal benefits, particularly universal family support. However, recent fiscal data on actual and projected government operating balances indicate a sizeable surplus. While it is important to be mindful of the many claims on public resources and the need for increased spending in certain areas, particularly in health, this thesis argues that the government can now afford to give families with dependent children a higher priority. The reasons for doing so through universal child allowances have already been debated in the preceding chapters.

It is not difficult to reply to those who criticise universal benefits on the basis of their lowered effectiveness. Indeed analysis of existing policy outcomes suggests that the case for selective benefits on the basis of their effectiveness is not watertight. This thesis has already mentioned

that New Zealand's means-tested policies because of their design are complex in their eligibility criteria, payment rates and rules. These factors influence their take-up. If the access to benefits is hindered, then achievement of their policy goals is also. The elimination of child poverty provides an example. The observation that New Zealand's more tightly targeted policies have not resulted in the same degree of poverty reduction as those of countries which have integrated welfare systems consisting of universal and targeted policies is testimony to the power of universal benefits.

In concluding this thesis, the case for universal child allowance emerges from the preceding chapters. If society accepted its responsibility for children and the wellbeing of future generations, financial support for children would be based on universal principles. The arguments provided suggest that universal child allowances are a benefit for the 21st century. The time is right for New Zealand to learn from the lessons of other countries that have successfully combined universal and means-tested policies. All children should be treated the same regardless of the financial or employment status of their parents. If New Zealand policy-makers truly want to make a difference to New Zealand families and the society in which they live, reintroducing universal child allowance is a good place to begin. As British Chancellor for the Exchequer, Gordon Brown stated in his 1998 Budget speech:

Giving a child the best start in life takes more than money, but it cannot be done without money. And I believe that the child benefit remains the fairest, the most efficient, and the most cost-effective way of recognising the extra costs and responsibilities borne by all parents (Brown, cited in Misa, 2004).

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