

Evidence-based Evaluation Working for Families

Introduction

One of the most important functions of the discipline of economics is to provide a rational basis for policy making. The role of evidence is at its heart, yet the scientific approach to social matters may also blind us to fundamental normative issues that must be faced before we can answer the question: does this policy make us better off?

This article first outlines the background to 'evidence-based' or 'evidence-informed' policy, sometimes called 'what works', and then suggests a simple framework for policy analysis that highlights the points at which research-based evidence may, could, or should have an impact. The framework may also be adapted to provide a basis for a critique of existing social policy.

Major policies like Working for Families (WFF) are implemented with large budgets for evaluation; however, in practice such evaluations may take a

narrow focus. This article uses the policy framework to critique WFF with an emphasis on the component designed to incentivise work called the in-work tax credit (IWTC). The conclusion of our analysis is that quantitative measurement of employment outcomes of the work incentive part of WFF became an end point of the policy process and appeared to provide an 'evidence-based' endorsement. The official evaluations largely ignored qualitative factors, unintended consequences, normative

assumptions and trade-offs, ex post questioning of the economic models, and meta-analysis. As a result there was little broader critical analysis that might have suggested improvements to this policy.

Evidence-based policy

The 1999 UK white paper *Modernising Government* proposed that being evidence-based was one of several core features of effective policy making, a theme developed in subsequent government publications (Bullock, Mountford and Stanley, 2001; Strategic Policy Making Team, 1999). As in the UK, evidence-based approaches to social policy became popular in New Zealand. The theme of the 2003 Social Policy Research and Evaluation conference convened by the Ministry of Social Development was the incorporation of research and evaluation into evidence-based policy and service delivery. Subsequent conferences strengthened the belief that objectivity and hence better policies would result from taking an evidence-based approach.

The concept of evidence-based policy has an intuitive common sense logic, which partly explains how it has become naturalised in a diverse range of policy settings. (Marston and Watts, 2003, 144)

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Box 1: Policy development framework

1. Clarify the problem.
2. Set clear objectives (aims) for policy; note trade-offs.
3. Make aims measurable or quantifiable.
4. Select policy criteria: e.g. cost-effectiveness, economic efficiency, equity, administrative simplicity; outline theories or models that inform policy development.
5. Assess a full range of policies that might achieve the objectives.
6. Select and design the best policy; project expected costs and outcomes.
7. Implement policy.
8. Measure outcomes against clearly stated, measurable objectives.
9. Review unintended consequences.
10. Evaluate policy against criteria; confirm that the problems and the underlying economic model have been properly conceived; and suggest improvements.

Source: revised from St John and Dale, 2010

Table 1: WFF changes, alignment with objectives and the change in annual expenditure

WFF changes	Objectives of WFF changes			Change in annual expenditure (2004–2008) ¹
	Make work pay	Ensure income adequacy	Delivery supports people into work	
Increases in family tax credit rates (1 April 2005 and 1 April 2007)		✓		+\$1,087m ²
Changes to the abatement regime of WFF tax credits from 1 April 2006	✓	✓		
Introduction of the in-work tax credit (1 April 2006)	✓	✓		+\$485m ³
Annual adjustment of the minimum family tax credit ⁴	✓	✓	✓	+\$5m
An increase in the accommodation supplement thresholds and rates	✓	✓		+\$177m
Increased child care assistance for those eligible	✓	✓		+\$93m
Removal of the child component of main benefits ⁵	✓		✓	-\$297m
Replacement of the special benefit with temporary additional support ⁶			✓	-\$3m
Total change in expenditure				+\$1,548m
Systems to support delivery of WFF changes			✓	+\$108m

Source: adapted from Centre for Social Research and Evaluation, 2010c, p.2

1. Tax years ended March.

2. Expenditure on family tax credit and parental tax credit.

3. Expenditure on in-work tax credit and child tax credit.

4. Ensures no reduction in income when moving off benefit into paid work.

5. Estimated, assuming every sole parent receiving domestic purposes benefit with one child would have received \$27 child component a week, and those with two or more children would have received \$54 child component.

6. Temporary additional support is targeted at beneficiaries with higher financial costs.

As Nutley, Davies and Walter (2003, 29) argue, it became fashionable to emphasise the role of evidence and analysis, thus making social science and policy making appear 'objective' and 'scientific'. However, statistical methods designed for an idealised world may rely on some assumptions that make the results questionable. Also, unless the samples are large, and a wide range of factors are included, statistically teasing apart aspects that usually occur together is difficult. The process may obscure other evidence essential to developing the deeper understanding that policy makers (and others) need (see Wylie, 2006, 8-9).

In this environment there are many caveats around most evidence-based evaluations of social policy. Adopting 'what works?' as a slogan can be simplistic and dangerous. Intervening in children's lives, especially, as discussed in Roberts (2005), is 'not just a research, policy and practice issue ... it is also a rights issue for children and young people' (p.34). When assessing a social policy such as WFF, where the work behaviour of parents was intended to be modified by a payment to achieve poverty objectives for children, the role of quantitative evidence may be limited.

The WFF policy has been subject to a number of official and unofficial appraisals and evaluations, as set out in the appendix below. The first official evaluation was delivered at a Victoria University tax conference in Wellington in February 2009, and published online (Ministry of Social Development and Inland Revenue, 2009). A further iteration (Dalgety et al., 2010a) and a technical report (Dalgety et al., 2010b) were further updated in the final evaluation report, *Changing Families' Financial Support and Incentives for Working: the summary report of the Working for Families package* (Centre for Social Research and Evaluation, 2010c), with several annexes looking specifically at technical issues, such as effective marginal tax rates.

Various researchers have been interested in evaluating whether WFF increases or decreases other kinds of social behaviour apart from working, such as partnering or having children (for example, see Fitzgerald, Maloney and

Table 2: Tax credits in Working for Families

Tax credit	Cost (\$m) year ended June 2011	Nature of payment (2011)
Family tax credit (FTC)	\$2,200	Child-related weekly supplement: \$88 per week for the first child, \$61 for subsequent children, higher rates for children over 13. Abated at 20% from \$36,860 joint income.
In-work tax credit (IWTC)	\$592	Child-related weekly supplement, work requirement: 20 hours sole parent, 30 hours couple; and off-benefit. \$60 per week for 1-3-child families, increasing to \$75 per week for a 4-child family, \$90 for a 5-child family, and for a 6-child family \$105 a week. Abated after the FTC.
Minimum family Ttx credit (MFTC)	minor	Minimum family income top-up (net \$22,204). Requires same hours of work as the IWTC and off-benefit. The MFTC is abated at 100% for additional income.
Parental tax credit* (PTC)	minor	Paid \$150 a week for 8 weeks for new child. Abated after the IWTC.

Source: IRD, <https://interact1.ird.govt.nz/forms/famcalc2008/>

* The PTC is paid for a small number of families with a new baby and while providing design issues of its own (St John and FAMILTON, 2011) is not further discussed here.

Pacheco, 2008). These issues, however, are not further explored here.

The policy framework

An economics framework for policy analysis can be set out in a number of ways. In the suggested sequence shown in Box 1, evidence has a role at each step, but is itself capable of manipulation. There are also normative disagreements that should be made explicit but which may instead be subsumed in the political process.

The objectives and normative values of politicians may influence each step of the policy process, and the choice of criteria and their weighting may be different from those of the policy analysts. Thus, each step has the potential for confusion and loss of clarity, with a large element of subjectivity in the selection of the kinds of evidence to be used. As always, the 'question' determines the possible 'answer'. For there to be a quantitative evaluation, the aims of policy must be measurable. The process of measuring may lose sight of the underlying social policy outcomes judged on broader considerations, including whether the problems have actually been addressed, whether the underlying economic model was properly conceived, or how policy may be improved (for a discussion of

measuring the success of social policy see St John, 1997).

How should a good result be measured? Does it 'work' if it meets the objectives of the policy? Or should it be assessed according to a set of higher order principles capable of transcending political ideologies and good intention? (Durie, 2004, 2)

Case study: Working for Families, the role of the in-work tax credit

The above framework is useful for the development of new policy, and can also be adapted to analyse existing policy. The WFF financial assistance package, implemented between October 2004 and April 2007, and summarised in Table 1, was a major policy change for the support of New Zealand's children (St John, 2006, 2011). This case study examines the role of the tax credits, described in more detail in Table 2, with a particular focus on the IWTC which was introduced on 1 April 2006, and, as can be seen from Table 1, had a dual focus on income adequacy and making work pay.

Table 2 shows that all low-income families with children are entitled to a per-week, per-child family tax credit (FTC). If they are not in receipt of a

benefit, and meet the work test, they may also be entitled to the IWTC. This is a child-related payment of \$60 for one-three children, rising by \$15 per child for the fourth and subsequent children. These two main tax credits recognise the extra costs of children and are usually paid fortnightly to the caregiver, with the amount dependent on the combined annual family income and the number and age of dependent children. The total amount is abated from a household income of \$36,860 at a rate of 20%, with the IWTC abated last.

In 2011 the IWTC and the FTC cost a total of \$2.8 billion, with 21% for the IWTC. For low working income families, the value of the IWTC is significant: for example, for a one-child family it is around 40% of total family assistance.²

The minimum family tax credit (MFTC), designed to encourage an exit from the benefit system, is a flat-rate top-up that guarantees a minimum level of income for working families.³ For example, a sole parent on the domestic purposes benefit (DPB) working 20 hours could be shifted off the benefit and have net wages topped up with the MFTC. Families with children may receive the FTC and the IWTC in addition to the MFTC. The MFTC replaces, in effect, their part-benefit and ensures that they are not worse off. However, it abates at 100% for every extra dollar earned, providing a maximum work disincentive.

What was the problem to be addressed?

By the early 2000s family income assistance had fallen markedly in real terms through neglect and a lack of inflation indexing. The key WFF policy document from the Cabinet policy committee (2004) noted that 'the declining real value of family income assistance has been a key factor contributing to inadequate family income' (p.1).

The political context for the development of WFF was that the government had vowed to eliminate child poverty (Ministry of Social Development, 2002). There was nothing to suggest in the conceptualisation of the problem that the concern was not about all children in poverty. Child poverty was described as having 'negative effects on the well-being

and development of children over time' (Cabinet Policy Committee, 2004, 1).

In addition to the acknowledgement of unacceptable levels of child poverty, existing social assistance was seen to 'act as a barrier to people moving from benefit to employment' and the returns to work as needing to be improved both for beneficiaries and working families:

Families with dependent children are a priority because ... many low income families with children are no better off in low-paid work once work-related costs, benefit abatement and tax are taken into account. (ibid., 2)

Were the objectives (aims) for policy clear?

The high-level objective of the WFF policy was to improve the lives of families with children. The three specific objectives set out by the Cabinet Policy Committee (2004) and again outlined in the evaluation reports (Centre for Social Research and Evaluation, 2010c; Dalgety et al., 2010a) were to:

- make work pay by supporting families with dependent children so they are rewarded for their work effort
- ensure income adequacy, with a focus on low- and middle-income families with dependent children to address issues of poverty, especially child poverty
- achieve a social assistance system that supports people into work, by making sure they get the assistance they are entitled to, when they should, and with delivery that supports them into, and to remain in, employment.

Thus, at this point there was no acknowledgement of the criteria of cost-effectiveness, efficiency or the value of administrative simplicity. Nor was there any suggestion that the child poverty to be addressed was for working families only.

Were the aims measurable or quantifiable, and were trade-offs acknowledged?

The WFF package entailed a substantial increase in the value of the FTC, the introduction of the IWTC, which

replaced and extended the former child tax credit, and an expansion of child care subsidies,⁴ designed to achieve all three stated objectives of the policy including reducing child poverty.

The official evaluation (Centre for Social Research and Evaluation, 2010c) claims that 'the WFF changes aimed to strike a balance between the 'income adequacy' and 'make work pay' objectives' (p.3). While the second bullet point above might be taken as a concern for all poor children, the design of the IWTC specifically excluded children of sole parents who were not working at least 20 hours a week, and of couples not working at least 30 hours a week:

[T]he introduction of the in-work tax credit would improve the financial incentive for families to be in paid work as well as improve incomes and reduce poverty among working families. (ibid., v)

While the FTC increases in 2005 went to all children on the same basis, for children in benefit families these increases were offset by core benefit reductions and hardship provision changes, as shown in Table 1. The final FTC increment in 2007 of \$10 per week per child was, however, received by all low-income children.

To use one instrument, the IWTC, to achieve two goals was going to compromise at least one of the objectives. To 'make work pay' using a tool designed to reduce child poverty inevitably meant that some children would be treated differently from others, and would be 'left behind', as was pointed out at the time (St John and Craig, 2004) The work incentive was primarily supposed to move sole parents off the DPB.⁵ Employment rates among sole parents were considered low by international standards, and the majority of children in benefit households were in sole-parent households. It was expected, however, as outlined below, that the work effect would be modest at best.

The poverty objective was to be measured by changes in the numbers of children below two poverty lines: 60% and 50% of the before-housing-costs equivalised median income (Perry,

2005). Data for 2004 showed that 15% of children fell below the OECD-defined 50% before-housing-costs line. WFF was expected to reduce this statistic by 70%, thereby lowering child poverty rates in New Zealand to 4%, a level similar to that enjoyed by Scandinavian countries. The drop in the numbers below the 60% line was expected to be a more modest 30%, a fall from 29% in 2004 to 20.5% in 2007 (Perry, 2004, 19).

What policy criteria, theories or models were important in policy development?

In any policy, political considerations underpin the selection, definition and interpretation of criteria. In the development of WFF, vertical equity considerations stressed income adequacy for working families. Horizontal equity concerns were ignored, in particular the principle that all children in low-income households should be treated the same, irrespective of the source of parental income. There was little or no discussion of broader criteria, such as principles of social justice or citizenship rights; nor did it appear that the criteria of cost-effectiveness or administrative simplicity were of great concern.

The economic theory driving policy design was that incentives that increase the return to work for those on welfare benefits are both necessary and effective ways to encourage work. With respect to sole parents, child care costs were also seen as important, but paid work was seen as both the way out of poverty and of inherent value for the person and their children. Conditioned by the recent experience of strong economic growth, it was expected that financial incentives and more child care would be effective, without a need to consider demand factors for labour.

Was a full range of policies examined that might achieve the desired objectives?

One political attraction of in-work benefits is their apparent ability to concurrently achieve employment and distributional goals (Pearson and Immervoll, 2008, 2). Also, there may be a stronger political constituency for the fiscal cost of supporting people in paid work as opposed to supporting them on welfare.

However, the WFF policy development process did not include an examination of other ways by which workforce participation can be encouraged: examples are transitional payments; generic tax reductions; changes to benefit levels or their abatement which reduce effective marginal tax rates;⁶ minimum wage legislation; ‘welfare to work’ case management; and labour market regulations. It also ignored Australia’s approach, where only minor targeted use has been made of in-work benefits (ibid. 2008). Australia has never had a child-related work incentive and all low-income children are treated the same for family assistance (St John, 2011; St John and Craig, 2004).

New Zealand’s IWTC was, instead, influenced by the UK working tax credit and the earned income tax credit in the United States. However, the design of these work incentives is quite different to that of the IWTC (as shown in Table 3). Since 2003 the UK has separated the child-related weekly payment, the child tax credit (CTC), from the work incentive tax credit (WTC). The CTC is paid for all children on the same basis, regardless of the source of the parents’ income (Millar, 2008, 23). The WTC, paid to the worker, provides a work incentive aimed only at the transition to work, abating from a low level of income at a high rate.

The US’s earned income tax credit (EITC) is also aimed at the transition to work, and paid to the worker, not the caregiver. The EITC offers a subsidy to low earnings and operates over three ranges of income. In the ‘phase-in’ range, the credit increases as income increases; the credit remains constant in the second, ‘plateau’ range; it is abated over the third, ‘phase-out’ range (Ellwood, 2000; Pearson and Immervoll, 2008). It is not restricted to parents, although a stated objective in 1993 was to lift lone parents in full-time, low-wage employment out of poverty (Pearson and Immervoll, 2008, 31). It has some unintended consequences, including the incentive not to partner, as discussed in Meyer (2007).

Evidence gathered in buoyant economic times suggests that the UK’s WTC and the US’s EITC had a positive effect on the labour force participation

Table 3. Comparing in work tax credits: UK, US and New Zealand

UK WTC	US EITC	NZ IWTC
Minimum hours worked required. Adult-based	No minimum hours required. Adult-based	Minimum hours worked required. Child-based
Paid to worker	Paid to worker	Paid to carer
Abates from very low income level. Affects transition to work	Phased in over low income and then phased out	Abates from a relatively high level of income after the FTC
Abates quickly	Abates moderately quickly	Abates slowly

Source: St John, Dale and Littlewood, 2009

rate of sole parents (Dickens and Ellwood, 2004; Gregg, Harkness and Smith, 2007). This evidence was clearly influential in the development of the WFF policy, even though the IWTC policy was to be very differently designed.

Was the best policy selected and what were the expected outcomes?

Fiscal affordability

At the heart of WFF was the theory that ‘work is the way out of poverty’. The choice was made to implement the IWTC, an extensive, cash-based, child-related tax credit designed to also have an impact on poverty levels. When the original package was announced in the 2004 budget, the government was criticised for leaving out the poorest children (St John and Craig, 2004), but the government claimed to have no money left to help beneficiary families. Then, pre-election 2005, an additional annual \$500 million was found to augment the WFF package. The abatement threshold was raised from \$27,500 to \$35,000, and the abatement rate reduced from 30% to 20%. Because the IWTC is abated last, the effect was to extend it to relatively high-income families,⁷ where a payment to ‘make work pay’ was clearly not needed. With different choices, this \$500 million could have been spent on the poorest families, thus addressing the poverty objective directly.

The policy process

Lacking, at both the policy development stage and at the point when the IWTC was expanded prior to its introduction, was a critique of how the policy would achieve the objectives of improving income adequacy and enhancing work incentives in the most cost-effective, equitable, efficient and administratively

simple manner. On the same day the WFF package was announced in the 2004 Budget, the legislation was introduced in the House and passed. There was no select committee process, nor did any green or white paper canvass views about the proposed changes.

In 2008 a case was taken by the Child Poverty Action Group alleging that the IWTC discriminated against the poorest children (as discussed below). The judge found the lack of consideration of citizens’ and children’s rights along with obligations under international conventions ‘surprising and unfortunate’. In 2011, in a subsequent hearing Judge Dobson was

similarly troubled by the absence of any analysis of the potential discrimination, particularly in light of the commitments made by signing international instruments such as the International Covenant on Economic, Social and Cultural Rights (ICESCR) and the Convention on the Rights of the Child (UNCROC) which address such matters. (High Court, 2011)

Work incentives: theory and practice

By the time the WFF package was fully implemented in 2007 there was no clear connection between the original rationale for the IWTC and its final form. The basic theorising was that work provides the route out of poverty, but requires work incentives. An effective work incentive, generically an in-work benefit, would ‘make work pay’ by creating an income gap between those in paid work and those not in paid work.

Despite the theory, the IWTC is a most unusual in-work benefit. It does not reward each extra hour of work, but

provides a lump sum to families who reach the minimum number of required hours of 20 for a sole parent and 30 for a couple. The justification appeared to be that being in part-time work on a benefit was undesirable and the IWTC was needed to incentivise a complete escape from the benefit system. Yet the evidence that part-time work is always inferior to full-time work, especially for sole parents of small children, is lacking. Moreover, 20 hours is not full-time work and, unless the sole parent is well paid or has other income, such as from child support, even with the IWTC it will not be enough to live on, as discussed below.

Is work in and of itself the way out of poverty, or is it so only because the state makes it pay with sufficient subsidies? Recent research in Canada (Card and Hyslop, 2005) and Minnesota (Gennetian, Miller and Smith, 2005), not taken into account in the IWTC development, has thrown into doubt the value of work incentives for achieving long-term benefits, including attachment to the labour force, future opportunities for well-paid work, and eventually a path out of poverty.

The IWTC policy development was informed by 'evidence' from simulation exercises. For example, a March 2004 report to ministers on the expected impacts of WFF advised:

there may be a small increase in labour market participation amongst both beneficiaries and non-beneficiaries ... this may lead to a small increase in employment ... In the event of an economic downturn, employers are less likely to absorb any increase in labour supply generated as a result of improved work incentives. Families already engaged in work ... may, depending on the structure of assistance, reduce the work effort of second earners in dual-income households. (Ministry of Social Development, 2004, paras 89-92)

A micro-simulation (Kalb, Cai and Tuckwell, 2005) found that an increase in the probability of working was largest for one-child families because the increase in the IWTC over the previous child tax credit was largest for them. For couples,

only 8% in the sample observations worked fewer than 30 hours a week and for these, higher incomes could induce a reduction in labour supply of one or both partners. 'For married women, the most popular choice is to reduce labour supply to zero' (ibid., 2005, 13). Around 1.8% of lone parents were expected to enter the labour force, 2.4% were expected to work less, and about 1.9% were predicted to increase average weekly working hours, but by less than an hour (ibid., 24).

Other analyses (Dwyer, 2005a; Nolan, 2004; St John and Craig, 2004) also concluded that the WFF package was unlikely to have much net positive effect on aggregate employment, and provided no encouragement for secondary income earners to seek employment once the family qualifies for the IWTC. Moreover, there would be a disincentive to work above the abatement threshold (Nolan, 2002), and the Ministry of Social Development expressed concern over consequences for other labour market policies:

Should there be an increase in labour supply, any downward pressure on wages would reduce the returns to work for people without children and make these workers increasingly reliant on minimum wage provisions. (Ministry of Social Development, 2004)

Was the policy implemented as intended with efficiency and timeliness?

The implementation of WFF was largely seen as a success in terms of numbers, especially the take-up by those not on benefits:

Original forecasts have been met or exceeded, and there are high levels of awareness and receipt of WFF. In particular, there have been dramatic increases in the number of working families receiving WFF components ... The 2005/2006 tax year has exceeded the forecast of 260,000 families benefiting from WFF ... The increase among non-beneficiaries is especially pronounced. (Centre for Social Research and Evaluation and Inland Revenue, 2007, 1)

It was not clear that the complex package was always well understood, or that people knew what the component parts were designed to achieve. What was clear was that the 2005 expansion ensured a higher take-up by better-off families.

Measuring outcomes: what is the evidence that the policy is working to achieve its stated objectives?

It is difficult in a real-world analysis to disentangle the effect of any single measure, as numerous exogenous factors may change simultaneously. In the case of WFF, the components are supposed to work together and it is difficult to analyse them separately. Nevertheless, the work incentive was clearly to come from the IWTC,⁸ not the FTC, while the poverty reduction was to come from both the IWTC and the FTC.

Work incentives

Policies designed to incentivise work effort may appear to work well when *labour* is scarce, but appear ineffectual when *jobs* are scarce.

The first Ministry of Social Development evaluation of WFF acknowledged the difficulty of assessing the work incentive aspect of the IWTC, but stated:

since WFF has been implemented, New Zealand has experienced the largest fall in numbers receiving DPB since the benefit was introduced in 1973 ... (from 109,700 at August 2004 to 97,200 at August 2007). (Centre for Social Research and Evaluation, 2008, 40)

However, the faster pace of exits from the DPB between 2004 and 2007 is not evidence of the efficacy of the work incentive provided by the IWTC. Firstly, the labour market was exceptionally buoyant in this period and as expected some sole parents found work. Secondly, the IWTC was not brought in until 1 April 2006, near the end of the analysis period. Thirdly, the WFF threshold was much higher and the abatement rate was lower than prior to WFF, especially with the 2005 extension. This would of itself improve returns from working. Fourthly, other policy shifts would have increased work

Table 4: Number of DPB recipients with and without income in addition to benefit (\$).

DPB Recipients at end of August	No other income	With other income (\$ per week)					Total
		All with other income	\$1-80	\$81-180	\$181-300	>\$300	
2005	80,000	26,400	8,900	9,000	5,900	2,600	106,400
2006	78,000	23,600	8,200	8,200	5,200	2,000	101,500
2007	75,600	21,600	7,300	7,500	4,800	2,000	97,100
Change							
2005-2006	-2,000	-2,800	-700	-700	-700	-600	-4,800
	-3%	-11%	-8%	-8%	-12%	-25%	-5%
2006-2007	-2,400	-2,000	-900	-700	-300	0	-4,400
	-3%	-8%	-11%	-8%	-7%	-1%	-4%
2005-2007	-4,400	-4,800	-1,600	-1,400	-1,100	-700	-9,200
	-6%	-18%	-18%	-16%	-18%	-25%	-9%

Source: Centre for Social Research and Evaluation, 2008, p.40

incentives during this period, including increased child care subsidies, enhanced case management of beneficiaries, and an increase in the minimum wage from \$9 to \$12 (33%) between 2004 and 2008.

Finally, exits from benefits may not have entailed a significant increase in hours of work. Between 2005 and 2007, 4,800 of those who came off the DPB had income from paid employment. Of these, 'some would have been already working sufficient hours to qualify' for the IWTC (ibid.).⁹ In other words, a significant number counted as a 'success' were already working significant hours on the DPB (see Table 4).

In WFF it is largely the IWTC that provides the direct work incentive, but for those who achieve the qualifying number of hours a further top-up of the MFTC may be required to 'make work pay'. Between 2006 and 2007, the period of the introduction of the IWTC, the numbers on the MFTC more than trebled to 2,900 (Centre for Social Research and Evaluation, 2010c, 12). This means that the IWTC alone was not sufficient to make work pay for many of the sole parents who came off the DPB. Ironically, it was possible to show that a sole parent on the DPB working around 20 hours could cost the government less than if she was shifted onto the MFTC and the IWTC (St John, 2011).

Poverty

With regard to the child poverty objective, the Ministry of Social Development identified a fall in rates on the 60% line

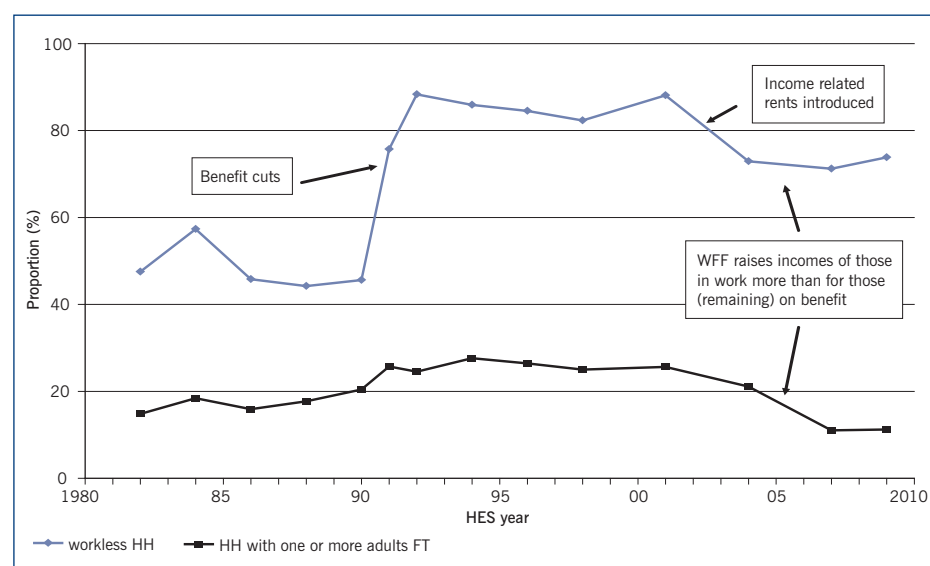
from the whole WFF package (Perry, 2009), both before housing costs and after housing costs, and using both a fixed line and a moving line, but the predictions of a 70% reduced child poverty based on the 50% line, however, did not materialise, 'reflecting the greater support from WFF for the working poor than for the beneficiary poor' (Perry, 2010, 84).

Approximately 80% of children in workless households are from sole-parent families, and Figure 1 shows that poverty rates for children in 'workless' families on the after-housing-costs 60% line hardly fell at all between 2004 and 2007. This is explained by the offsets for beneficiaries as shown in Table 1, and by their exclusion from the IWTC.¹⁰

It is indisputable that WFF represented a real redistribution to low- and middle-income working families with children. But, as Perry (2010, 109) states categorically, 'WFF had little if any impact on the poverty rates for children in workless households'.

Evidence of continuing severe family poverty was identified in June 2007 (Centre for Social Research and Evaluation, 2007). The 2008 Living Standards report (Perry, 2009a) revealed that, while there had been a drop from 26% of children living in severe or significant hardship, 19% remained in that category. While, as Perry (2009b, 57) notes, around half of children in hardship are from working families, the gains from WFF 'were mostly from

Figure 1: Poverty rates for children in 'workless' and 'working' households ('after housing costs' 60%, fixed line)



Source: Perry, 2010, 109

Table 5: Numbers of working-aged clients receiving main benefits, end of December 1999-2009

End of quarter	Unemployment benefits	Domestic purposes benefits	Sickness benefits	Invalids benefits	Other main benefits	All main benefits
December 2004	65,969	109,339	45,648	72,543	26,200	319,699
December 2005 WFF introduced	51,426	106,302	46,862	74,500	22,993	302,083
December 2006 IWTC	38,796	100,309	48,650	76,816	22,070	286,641
December 2007 WFF fully implemented	22,748	98,154	49,093	80,082	19,655	269,732
December 2009	66,328	109,289	59,158	85,038	25,663	345,476

Source: Ministry of Social Development, 2009

low to middle income working families, with little change in hardship rates for children from beneficiary families’.

While this evidence, along with corroboration of social distress from social agencies, might have suggested the need for a review of the policy, no attempt was made to query the IWTC’s efficacy or justify leaving the children in benefit-dependent families out of a poverty-alleviation measure.

Evidence-based statistical evaluations

The methodology used to evaluate WFF was a difference-in-differences study based on data from the Household Labour Force Survey, the Income Survey, and a survival analysis of DPB recipients using Ministry of Social Development/Inland Revenue linked data (Dalgety et al., 2010a, 2010b). The survival analysis looked at the speed with which sole parents returned to the benefit, and, given the impact of the recession which rendered the analysis somewhat redundant, is not further examined here. The difference-in-differences methodology took sole parents as the ‘treatment’ group and single people aged 18 to 65 years as the ‘comparator’ group and examined their respective employment rates for 2004 to 2007. The expectation that the work incentives for sole parents would cause their employment to grow at a faster rate than that of the comparator group was confirmed:

the percentage of sole parents meeting the eligibility threshold for the in-work tax credit requirement increased from 35.9% in June 2004 to 47.5% in June 2007, an increase of 11.6 percentage points. Difference-in-Differences analysis suggests that

around three-quarters (9.2 pp \pm 4.5 pp) of this increase was due to effect of the policy changes. (Dalgety et al., 2010a, 207)

The evaluation is careful to talk about the package as a whole, which makes it difficult to judge the success or suitability of component parts; but the ‘statistically significant’ increase in sole parents working 20 or more hours by 2007 beyond what may have been expected from market conditions is clearly associated with the IWTC, even though it did not apply until 2006. Moreover, the evaluation implies that ‘statistical significance’ proves the success of this policy in meeting its objectives. But, as McCloskey and Ziliak (2008) point out, it is inappropriate to use ‘statistical significance’ to infer ‘social significance’.

More fundamentally, there are occasions when a difference-in-differences methodology may be valid, but there are important caveats. The approach typically considers the policy reform itself as an experiment and tries to find a naturally occurring comparison group that can mimic the properties of the control group in the properly designed experimental context. Dalgety et al. compare two groups that differ vastly in age, gender structure, social responsibilities and macro conditions. To discourage the choice of part-time work and a part unemployment benefit in favour of full-time work, single unemployed people in New Zealand face a much higher abatement of their earnings from part-time work (89.5%¹¹ after 6.2 hours at the minimum wage) than sole parents; and childless single people are ineligible for the MFTC.

In addition, these two groups may be competing for the same jobs. As Bryson et al. (2006, 9) note:

financial inducements to parents with children to enter the labour market may increase their chances of employment at the expense of adults without children.

Ironically, the work incentives of WFF provided an income effect that reduced work effort for some caregivers:

Although not an objective of the reforms, the WFF changes gave couple parents greater choice about working and caring for their children by making it easier to manage on less income from the labour market. ... 9,300 fewer second earners in couple parent families were in paid employment in the quarter ended June 2007 due to the WFF changes. (Centre for Social Research and Evaluation, 2010c, vii)

Specifically, the IWTC operated to reduce the work effort of partnered women, but allowed them to receive the additional income for their children even though they were not in paid work. If the partner was to leave, however, they would immediately become ineligible for the IWTC whether or not they went on a benefit, because the rules say that if she is on her own she has to work at least 20 hours a week (St John, 2011).

Time-frame issues

Political justification requires early reports of success. The Dalgety evaluation was first published in 2009, and the time was too short to determine if employment increases were sustained. Between December 2007 and December 2009, as New Zealand’s GDP declined as a

consequence of the global financial crisis, combined benefit numbers rose by around 76,000, and DPB numbers increased by around 11,000, more than reversing the previously reported gains (see Table 5).

By September 2011, DPB numbers had risen to 114,147. While these may not be the same people, this suggests that the IWTC did not help sustain employment for sole parents in the economic downturn.

What were the unintended consequences?

The changes also led to greater complexity in the tax system. The National-led government elected in late 2008 acknowledged the problems faced by high levels of taxation of some childless lower-income groups (ineligible for the IWTC). In response, a compensating policy, the independent earner tax credit, introduced yet more complexity and took New Zealand further from the path of simple, low-rate, broad-base, comprehensive income taxation (St John, 2007).

Further problems arise for in-work benefits such as the IWTC that are designed with no thought of what might happen in a recession:

Because severe economic downturns can have marked effects on the earnings distribution, policymakers should review whether the eligibility conditions and payment profiles of existing IWBs are appropriate or should be adapted in order to exploit their potential as a measure that cushions income losses during a recession. (Immervoll and Pearson, 2009, 46)

In 2009, as a response to the recession, the government recognised that families were losing their jobs through no fault of their own and announced under the ReStart Package that families made redundant could retain the IWTC for 16 weeks.¹² ReCover was a stopgap quick fix creating two classes of unemployed, the deserving and the undeserving, and was phased out in January 2011 despite the protracted nature of the recession. Families hurt by recession or the effects of the Canterbury earthquakes are no longer entitled to retain the IWTC once they do not meet either the hours of work or off-benefit requirements.

Overall evaluation: was Working for Families successful?

With respect to the poverty objective, success was implied by the statistical 'evidence':

The percentage of children living in poverty, using a 60% measure relative to 2004, dropped by 8 percentage points [by 2008] due to WFF. Without the WFF package, New Zealand's child poverty rate would have continued to climb from 2004, most likely reaching around 30% in 2008. (Centre for Social Research and Evaluation, 2010c, viii)

There was little concern, however, that child poverty was not addressed for those on benefits. Reliance on tools to get such families into work clearly did not work, even in the good economic times, except perhaps temporarily for a small number of sole parents. There was no questioning of the nature of the remaining child poverty, nor of the disconnect between the child poverty problem as identified in step 1 and the outcomes of step 8 of the framework of Box 1.

The quantitative 'measurement of outcomes' (step 8), appeared to be the end point of the official evaluations. There was no qualitative evidence collected as to the actual experiences of either the sole parents or their employers. Were the lives of these sole parents and their children enhanced? What was the circumstantial evidence of social distress, such as shown by the demand for food banks and social services? The success of the policy was implied by its impact on sole-parent employment alone:

The policy changes ... increase the numbers of sole parents working 20 or more hours in 2007 and therefore meeting the requirements of the in-work tax credit. (Dalgety et al., 2010a, 211)

Later, the final version of the evaluation recognised that employment outcomes were not sustained in the recession, but it was still claimed that WFF met its top two objectives:

- The WFF changes met the 'income adequacy' objective as low and middle income families received the bulk of

the increased expenditure, and child poverty rates were reduced for lower income families with at least one adult in paid work. However there was no significant change in hardship rates for beneficiaries with children.

- The WFF changes met the 'making work pay' objective as they were effective in supporting 8,100 sole parents into paid work and enabling them to remain in paid work, though some barriers to work still remain for sole parents. (Centre for Social Research and Evaluation, 2010c, ix)

In the meantime, the IWTC has been subjected to sustained attack by child rights advocates.¹³ A 2008 Human Rights Tribunal decision upheld the Child Poverty Action Group's claim of discrimination against 230,000 of the poorest children in New Zealand who do not benefit from the IWTC:

We are satisfied that the WFF package as a whole, and the eligibility rules for the IWTC in particular, treats families in receipt of an income-tested benefit less favourably than it does families in work, and that as a result families that were and are dependent on the receipt of an income-tested benefit were and are disadvantaged in a real and substantive way. (Human Rights Tribunal, 2008, para 192)

The judge went on to find the discrimination to be 'of a kind that is justified in a free and democratic society' (ibid., 4). The Child Poverty Action Group appealed this finding to the High Court, but the declaration sought – that the IWTC was inconsistent with human rights legislation – was not achieved. This decision appealed to the Court of Appeal, is expected to be heard in 2012.

While not part of the case, discrimination could also describe the disproportionate disadvantage experienced by Māori and Pacific Island populations excluded from the IWTC because they have a younger demographic structure and a lower socio-economic status than the general population (Friesen et al., 2008).

Discussion

The perception of the well-being of sole parents ‘incentivised’ into work – whether it was good for them or their children – or how employers were affected were unexplored in the official evaluations. Do sole parents really need carrots and sticks, or is it more a question of suitable work, suitable hours, training opportunities, and adequate transport and child care? What are the economic gains from shifting sole parents with child-rearing responsibilities into paid work that requires tax-funded subsidies for child care and work incentives? What of the children of beneficiaries whose hardship rates were left unchanged? Were there serious design problems with the IWTC? Where, for example, was an examination of the validity of the minimum 20/30 hours requirements?

As noted by the OECD, in-work benefits are not a magic bullet. They are ‘costly and must be financed by increased taxes elsewhere or cuts in government spending’ (Pearson and Immervoll, 2008, 3). The annual cost of the IWTC is approximately \$600 million, with much of it paid to higher-income families for whom it may be welcome as a payment to help with the costs of their children, but not is necessary to ‘make work pay’. If initially effective in moving 2,000 beneficiaries into equivalent full-time work, the per-beneficiary cost was \$250,000. If the extra employment disappears in a recession, the cost remains, and the cost per extra job becomes infinite.¹⁴ If poverty alleviation was the other objective, was this a cost-effective approach?

The IWTC and the MFTC opened up a bigger gap between families ‘in work’ and those not ‘in work’, but were not designed to consider the possibility of an extended period of either negative or low growth such as has eventuated. With a loss of work or work hours, WFF assistance falls rather than rises, and thus fails to provide the cushion that might be expected from a targeted payment, compounding the very low adult benefit levels available to parents.

The criterion of simplicity was largely ignored, and the complex arrangements are hard to understand and difficult to monitor fairly (Dale et al., 2010a; St John, 2011).

Proposals for improving WFF

The limited achievements of WFF in light of the problem initially identified suggest that many aspects of the current policy framework should be revisited. The implicit normative judgement was that work incentives were more important than the rights of all poor children to an adequate standard of living. However, it was known at the outset that the work incentives were only ever going to affect a small portion of the poorest children in sole-parent households. Even then, whether the lives of even these children were enhanced when their parents found at least 20 hours of work is a question unanswered in the official evaluation.

The acknowledgement that most of the gains in employment had been eroded by 2009 (Centre for Social Research and Evaluation, 2010c, vi) might suggest, at the very least, that a different approach to work incentives is needed in a recession.

It is worth noting that in the approach to the 2011 election Labour, the Greens, the Māori Party and the Mana Party all pledged to extend the IWTC to the children in beneficiary families who are currently excluded.¹⁵ This adjustment would greatly simplify WFF and have an important impact on the degree of hardship experienced in benefit-dependent households. It would enable the child poverty objective to be met in a way that respects the rights of all children to be free of discrimination and to enjoy an adequate standard of living.

Meeting the 20 hours requirement consistently is often unattainable in a casualised labour market, but is required for both the MFTC and the IWTC. Not only does the MFTC have a worse work disincentive effect than a welfare benefit, it is in fact a substitute for a part-benefit. As the Ministry of Social Development’s deputy chief executive of social policy acknowledged, when work is precarious, people may have more income security on a part-benefit (Gray, 2008, 105). The MFTC should be abolished, the IWTC be absorbed into the FTC and provided to all children irrespective of their parents’ income source or hours of work, and returns to part-time work enhanced for parents on the DPB.

Other advice may need to be revisited. For example, the Treasury suggested that the policy should distinguish between sole parents with low wage-earning potential and costly child care challenges, and those for whom full-time work is an attainable goal (Hurnard, 2007). Another Treasury document (2005, para 7) recommended careful evaluation of proposals to lift labour force participation among young women aged 20 to 34 because early childhood education is expensive and there is a risk of low value for money from such spending. Part-time work while on a benefit may be the only feasible work for many sole parents while their children are young.

There are other possible approaches to helping the transition to full-time work. It is worth noting a proposal from the 2002 Children’s Agenda, for example:

smoothing the transition to work for beneficiaries with children by making a payment available of up to the equivalent of two weeks’ benefit when they enter work. (Ministry of Social Development and Ministry of Youth Affairs, 2002, 22)

Any attempt to improve family assistance and enhance the work incentive aspect of the policy would also need to consider the weaknesses in the current model of primarily privately provided for-profit child care provision. For example, the needs of rural and low-income communities are not being met because they are not profitable locations for private providers. The consequence is that the disadvantages experienced by these communities, and their children, are compounded.

Conclusion: what works?

Using the framework set out in Box 1 for Working for Families, there was a fundamental slippage between the problem identified at step 1, the objectives at step 2, and what was measured as success at step 8. The normative objectives as set out at step 2 implied that all poor children were of equal concern but this was subverted in a quantitative evaluation process that had no moral or ethical dimension.

If the IWTC is judged against the criteria of efficiency, equity and administrative simplicity, and for cost-effectiveness in addressing the identified problem, the available empirical evidence suggests that it has been a failure. It only marginally increased employment for sole parents, and that increase has not been sustained. It has not, therefore, provided a path out of poverty, and it has met the poverty objective for only a subset of poor children.

Furthermore, the policy is inherently discriminatory. Discrimination may of course be justified in certain circumstances. In this instance, however, the case for discriminating against the children of beneficiaries who fail to work 20 hours or more is unjustified. First, the available evidence suggests that any benefits from such discrimination have been very modest. Second, and more importantly, the harm caused and the injustice perpetrated has been significant.

Nothing in this paper can be taken to imply that 'evidence' should not inform

policy. However, in the case of the IWTC, quantitative evidence-based studies have been of limited use in assessing whether the policy 'worked'. Social significance requires a much broader range of tools and thinking, including use of other types of evidence, including qualitative data, circumstantial evidence of social distress, and the voices of those whose lives are affected.

Questions such as, 'did this policy make work pay?' should not be substituted for broader policy questions such as, has the problem actually been addressed?, was this a cost-effective policy?, and have we honoured our obligations as a society to all children?

- 1 The authors would like to thank the peer reviewers and editor for their helpful and constructive comments on earlier versions of this paper.
- 2 Because it abates last, the IWTC can be 100% of total family assistance for higher-income families.
- 3 This is \$22,204 net for 2011, approximately 51% of net average wage.
- 4 The increase to child care subsidies is not further examined here.
- 5 This is implied in the literature, and evidenced in the official evaluation, where the focus is squarely on those beneficiaries in receipt of the DPB.
- 6 The effective marginal tax rate is the combined loss from

tax and benefit abatement when an extra dollar is earned. A poverty trap for low-income people may occur when earning extra income does not materially increase disposable income (St John and Rankin, 2009).

- 7 Indexation took the abatement threshold to \$36,860 by 2011. A family with five children can still access some part of the IWTC up to an income of \$145,042 (<http://www.ird.govt.nz/wff-tax-credits/entitlement/>).
- 8 And to a minor extent from the MFTC.
- 9 A confounding factor not addressed in any analysis to date is the role of child support (payment from the non-custodial parent), which may have profound work incentive implications. Child support payments offset the DPB and many lone parents prefer a part-benefit even when working so that their income is effectively secured.
- 10 They had, however, gained from the introduction of income-related rents prior to WFF, as shown in Figure 1, illustrating the importance of housing costs.
- 11 Tax, 17.5%, ACC 2%, benefit abatement, 70%.
- 12 See <http://www.beehive.govt.nz/release/restart-assistance-package-redundant-workers>.
- 13 The Child Poverty Action Group claimed the IWTC constitutes unlawful discrimination under part 1A of the Human Rights Act 1993 and breaches New Zealand's obligations under the United Nations Convention on the Rights of the Child. See www.cpag.org.nz.
- 14 This calculation attributes the entire cost of providing income assistance to move people on the DPB to the objective of increasing employment by making work pay, and does not take into account distributional objectives.
- 15 For Labour's policy, see <http://www.labour.org.nz/node/2727>; for the Greens, see <http://www.greens.org.nz/endchildpoverty>; for the Maori party, see <http://www.maoriparty.org/index.php?page=cms&id=130&op=election-policy.html>; and for the Mana party, see http://www.nzherald.co.nz/maori/news/article.cfm?_id=252&objectid=10763960.

Appendix

Year	Title And Author
2004	<i>Cut Price Kids: does the 2004 'Working for Families' budget work for children?</i> (St John and Craig, 2004)
2005	<i>The Impact of Economic Policy on New Zealand Children</i> (St John and Wynd, 2006)
2005	<i>Dissecting the Working for Families Package</i> (Dwyer, 2005b)
2007	<i>Pockets of Significant Hardship and Poverty</i> (Centre for Social Research and Evaluation, 2007)
2008	<i>Receipt of the Working for Families Package</i> , 2007 Update (Centre for Social Research and Evaluation, 2008)
2008	<i>Child Poverty Action Group Briefing to the Incoming Government</i> (Wakim, St John and Wynd, 2008)
2008	<i>Left Behind: how social and income inequalities damage New Zealand children</i> (St John and Wynd, 2008)
2009	<i>Employment Incentives for Sole Parents: labour market effects of changes to financial incentives and support</i> (Ministry of Social Development and Inland Revenue, 2009)
2009	<i>Escaping the Welfare Mess</i> (St John and Rankin, 2009)
2010	<i>What Work Counts? Work incentives and sole parent families</i> (Dale, Wynd, St John and O'Brien, 2010b)
2010	<i>Employment Incentives for Sole Parents: labour market effects of changes to financial incentives and support</i> (Dalgety et al., 2010a)
2010	<i>Employment Incentives for Sole Parents: labour market effects of changes to financial incentives and support: technical report</i> (Dalgety et al., 2010b)
2010	<i>Changing Families' Financial Support and Incentives for Working. Annex Report 1: effective marginal tax rates for Working for Families recipients</i> (Centre for Social Research and Evaluation, 2010a)
2010	<i>Effective Marginal Tax Rates for Working for Families Recipients</i> (Spier, 2010)
2010	<i>Changing Families' Financial Support and Incentives for Working. Annex Report 2: employment incentives for couple parents: labour market effects of changes to financial incentives and support</i> (Centre for Social Research and Evaluation, 2010b)

Year	Title And Author
2010	<i>Changing Families' Financial Support and Incentives for Working: the summary report of the Working for Families package</i> (Centre for Social Research and Evaluation, 2010c)
2010	<i>Working for Families: integrity issues and removing indexation of the abatement threshold</i> (Inland Revenue and The Treasury, 2010)
2011	<i>Left Further Behind: how policies fail the poorest children in New Zealand</i> (Dale, O'Brien and St John, 2011)
2011	<i>NZIER Insight 27: Is Working for Families working for families?</i> (NZIER, 2011)

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