



What work counts? Work incentives and sole parent families

A Child Poverty Action Group Monograph
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Executive summary and recommendations

As New Zealand gears up to face another raft of social assistance reforms in 2010, the needs of children seem once again to have been sidelined in favour of a single-minded focus on their parents' work status. The philosophy that 'work is the way out of poverty' has been influential in the reforms of social assistance that have occurred across the OECD in the last twenty years, and can clearly be seen in the development of New Zealand's Working for Families (WFF) package. Yet packages such as WFF reflect the

reality that work is not the way out of poverty for low income earners unless they receive generous state subsidies.

WFF aimed to provide an incentive for parents to enter paid work, and to ensure income adequacy for those who did so. This paper considers whether WFF achieved its stated aim, and asks whether work-based social assistance results in well-paid, stable employment that lifts sole parents (and their children) out of poverty, or achieves little more than ‘churning’ between low-end jobs and benefits. When churning occurs in a regime where the financial payments designed to help meet the costs of children are tied to employment, the impact on children can be immediate and severe.

New Zealand enjoyed very strong employment growth in the period before and immediately after the implementation of WFF and its key component, the In-Work Tax Credit (IWTC). Unemployment began to rise again as the international economy weakened, and the effects of the global financial crisis started to be felt in New Zealand. As unemployment rose, so too did the number of sole parents moving from paid work back onto a benefit. For parents who lose work, the consequences are severe: they lose both employment income and many of their WFF tax credits. Many sole parents who had only been employed for a short time or were on temporary contracts were ineligible for the ReStart package, introduced to assist “hard-working New Zealanders” who had lost their jobs.

Official evaluations of WFF found that sole parents working 20 hours or more increased by 12 percentage points to 48%, with 75% of this change attributed to improved financial incentives and support. Sole parents most likely to take advantage of the WFF tax incentives were those with an existing attachment to the workforce. But as the recession reduced the availability of low-wage, casualised work, by 2010 the number of sole parent beneficiaries was back up to pre-WFF levels. The lesson from this is that the prevailing labour market has a greater impact on sole parent employment than financial incentives, and tying family income to paid work puts children at risk of irregular and variable income.

To produce a more informed picture of life for working sole parents, Child Poverty Action Group (CPAG) conducted semi-structured interviews with people who had been in receipt of Domestic Purposes, Sickness or Unemployment Benefits, and also had been in either part- or full-time paid employment over the period from 2004 to 2009. Participants were encouraged to record their own stories in their own words, prompted by the provided schedule to ensure coverage of key questions.

The CPAG interviews clearly indicated the complexity of the issues around sole parents meeting the multiple demands of providing adequate care for their children’s emotional, intellectual and physical well-being, finding and keeping employment, ensuring their own health, and maintaining security of income. The fact that so many sole parents have lost jobs in the recession supports overseas research that keeping work is often more difficult than finding it.

CPAG argues that the focus of social assistance for families must shift from parental work status to investment in children, especially in the early years. Arbitrary work requirements fail to do this, and risk further compromising the wellbeing of the thousands of New Zealand children in benefit-dependent households who are disproportionately likely to be in hardship.

Understanding how, why, and when families move in and out of poverty can reveal a more complete picture of the nation's poor than a static poverty rate provides. Enabling children to escape the trap of poverty must be the priority for any reforms in New Zealand. Income security and support for children cannot be left solely to their parents' ability to participate in the precarious labour market of the 21st century.

Based on the findings of this report, we make the following recommendations:

- Recognise the contributions made by sole parents to their children and to society, and the extra difficulties they face on a daily basis;
- Frame the welfare state as an enabling institution that invests in all children, facilitates early childhood development, and lays the foundation for the child's future development;
- Immediately reform the clumsy, complex family assistance tax credit system so that all children in low income households are entitled to assistance on the same basis, regardless of the source of parental income;
- Avoid imposing welfare-to-work policies that exacerbate household transience in families with young children;
- Identify transient and isolated mothers and work closely with them to achieve sustainable improvements in their incomes;
- Identify any special needs of children in these families, and deal with them promptly;
- Ensure adequate, affordable housing is available on public transport routes for beneficiaries and those on low incomes;
- Make reliable information available regarding all benefit and income support entitlements.

Since 2008, the global financial crisis has had a negative impact on New Zealand's economy, slowing already limited growth in employment possibilities. Improving parents' choices in and rewards from the labour market and the home will require initiatives at the workplace, in the wage system, in schools, in family law, and in the welfare state. New Zealand's children have borne the brunt of changes to all these in the last 20 years. We do not have the right to gamble with their futures, leaving their welfare to a residual safety net and the exigencies of a volatile labour market.