The Impact of the Domestic Purposes Benefit and Family Assistance on Partnering in New Zealand: A Proposal

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Lessons from welfare reform in US
- What was welfare reform
- What happened?
- Relevant to NZ?

Partnering and Family Assistance
- Marriage Penalties and Bonuses
- Model of Partnering and Employment
- HLFS data
TANF+Food Stamp Monthly Benefits, no work, 2003

- Family of mother with two children
  - Alabama $556 (NZ$ 780)
  - California $881 (NZ$ 1233)
  - Mississippi $541 (NZ $757)
  - New York $898 (NZ$ 1257)
  - Texas $546 (NZ$ 764)

Poverty line for family of three: 1268
## Combined benefits, working, 2003

- **Single parent, two children, working full time at minimum wage**

<table>
<thead>
<tr>
<th></th>
<th>Texas</th>
<th>New York</th>
</tr>
</thead>
<tbody>
<tr>
<td>Earnings</td>
<td>9885</td>
<td>9885</td>
</tr>
<tr>
<td>EITC</td>
<td>4204</td>
<td>4204</td>
</tr>
<tr>
<td>TANF</td>
<td>0</td>
<td>2112</td>
</tr>
<tr>
<td>Food Stamp</td>
<td>2304</td>
<td>1668</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>16393</strong></td>
<td><strong>17869</strong></td>
</tr>
</tbody>
</table>

- **NZ $**
  - 22950
  - 25016

- **% of US Poverty line**
  - 117%
  - 107%
What was welfare reform?

- Welfare reform: work requirements, time limits, earnings disregards, family cap, Sanctions.
- Policy devolved to states. Varying implementation by state in early 1990s.
- Federal block grant 1996
- Goals: welfare to work, reduce unwed motherhood
Results

- Studies: leavers, experiments, national survey data
- Welfare reform moved women into work
- Mixed effects on incomes
- Welfare reform had little impact on family structure
- Effects on children?
U.S. Families on AFDC/TANF and Economic Conditions, January 1950 to June 2000

Total Caseloads, in Millions

Note: Shaded areas indicate economic recessions. Unshaded areas are economic expansions.
Source: U.S. Department of Health and Human Services and Department of Commerce
Figure 4

Labor Force Participation Rates for Women by Marital Status and Children (Ages 20-65)

Source: Tabulations of March Current Population Survey Data
Experimental Findings on children

Preschool-age and early school age children achievement

- benefit when policies increase parents' income
- benefit when policies increase parents’ employment and income
- show few effects from policies that increase parents' employment but not income
- show few effects from time limited policies tested

Adolescents show negative effects on school progress

Negative effects on school progress from welfare reform policies, especially adolescents with younger siblings.

(Another study found positive effects on mental health for adolescents)

Source: Morris et al.
Earned Income Credit

- Income tested wage subsidy for families with children, like Family assistance
- Encourages labor participation, little effect on hours worked
- Has marriage bonuses and penalties but little evidence of effect on marriage
Relevant to NZ?

- Mothers encouraged to work
- Partnering incentives for in work payment similar to EITC
- Legal marriage in US, partner in NZ
- Married eligible for more aid in NZ
WFF marriage effects

- Marriage “penalty” = single “bonus
- Due to Family Assistance based on combined family income
- Example after WFF: Single woman with 2 kids earning $30000 get aid $9500
- If marry spouse earning $30000, the marginal tax rate = 0.3 so lose $9000 in benefits
- Zero earning single could get marriage bonus if marries man with earnings because qualifies for FA, moves off DPB
Joint Model

- Four states
  - Employed, married
  - Not employed, married
  - Employed, not married
  - Not employed, married

Compute expected incomes in each state, based on distribution of hours (conditioned on wages) for employed states, zero hours for not employed.
Data

- Longitudinal data desirable because transition rates change faster than levels
  - but SoFIE releases not current enough, links of HLFS?
- Use the annual income supplements of HLFS
- Years 1997 to date span time of variation in DPB and Family Assistance
- Draw sample of partnered and unpartnered women aged 15-55
- Outcomes

- Coefficients on taxes and income identified by cross family variation over time

- We can simulate impacts of changes in programs by calculating how they change expected incomes for each person, expected utilities, then partner probabilities for each person, then aggregate
Suggestions?
Partner penalty in WFF

- Two people each earn $30000, two children. Pre-Working for Families:
- if unpartnered combined income after benefits and taxes is $51450 (assuming no change in earnings).
- If partnered combined income after benefits and taxes is $47820.
- Thus current partnering “penalty” = $3630.
- After WFF fully phased in, partnering penalty for same couple would rise to $9000
  - Source: Johnson 2005