

The **Value** of Family

Fiscal Benefits of Marriage And Reducing
Family Breakdown in New Zealand



Executive Summary

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A recent 70-page report issued by the Children's Commissioner and Barnardos, for example, contained no reference to marriage or divorce and parents' separation was only discussed in the context of assessing Child Support liability (Fletcher and Dwyer, 2008).

Yet while most families experience generally positive outcomes, there are several features of the New Zealand environment that suggest it is unwise to overlook family breakdown and decreasing marriage rates. In particular:

- although there have been year-to-year variations, the marriage rate has been declining steadily since 1971 (from around 46 marriages per 1,000 unmarried people older than 16 to around 14 marriages per 1,000 in 2007). Many marriages, furthermore, last for a relatively short time. The median duration of a marriage ending in divorce in 2006 was 13.3 years, with marriages under five years accounting for around 15 percent of divorces and marriages under 15 years accounting for around 56 percent of divorces
- the teenage birth rate in New Zealand is high by OECD standards, particularly for young Maori and Pacifica women. Teenage childbearing has a long-lasting effect on the wellbeing of the women and children involved, including interrupted education, reduced earning potential, and reduced career prospects
- in 2006 sole parents with dependent children made up 30 percent of families with children. Poverty and living standards research in New Zealand has illustrated that sole parents have the lowest average living standards of all economic family unit types. Maori and Pacifica women were more likely than women from other ethnic groups to be sole parents
- the interaction of a range of tax-benefit programmes creates marriage penalties and poverty traps, particularly for families with children. Marriage penalties mean that some people are discouraged from entering into or remaining in a relationship in the nature of marriage by the tax-benefit system. Poverty traps occur when there is a range of hours of work where, due to taxation and the clawback of assistance, there are few or no financial incentives for people to enter into or remain in work, or to increase their hours of work or wage rates.

To help develop the evidence base on family breakdown and decreasing marriage rates in New Zealand this report considers the private and social costs of these phenomena. The objective is not to criticise particular family types but to understand these costs and to support debate on the ways in which they may be lowered (particularly through increasing family resilience).

Measuring the costs of family breakdown and decreasing marriage rates raises many challenges (partly due to the paucity of empirical research on influences on family form in New Zealand). Failing to consider and debate these costs would, however, mean that we would have little chance of understanding some of the most important issues facing New Zealand's most vulnerable families.

While divorce may on occasion help avoid negative family outcomes (such as in high conflict situations), international research suggests that

the private costs of divorce and unmarried childbearing include increased risks of poverty, mental illness, infant mortality, physical illness, juvenile delinquency and adult criminality, sexual abuse and other forms of family violence, economic hardship, substance abuse, and educational failure. In this report emphasis is given to the effect of family breakdown and decreasing marriage rates on poverty among families with children.

Family breakdown and decreasing marriage rates also lead to social costs by increasing the fiscal costs to taxpayers through increasing take-up of government programmes (e.g., the number of children and adults in need of income assistance) and through influencing the social problems facing communities – such as crime and poor health outcomes. Both of these categories of taxpayer cost are considered in this report.

Estimates of the fiscal cost to taxpayers of family breakdown and decreasing marriage rates (gross of any potential benefits from the ending of high conflict relationships) are shown below. These estimates are based on expenditure in the 2008 Budget and, given the lack of empirical research on family form in New Zealand, assumptions that have been made explicit in this report and discussed with other researchers. The assumptions employed in this study deliberately understate the taxpayer cost of family breakdown and decreasing marriage rates.

Based on the assumptions employed, the fiscal cost to the taxpayer of family breakdown and decreasing marriage rates has been estimated at around \$1 billion (around \$300 per taxpayer) in 2008-09, even before we consider the potential for family breakdown and decreasing marriage rates to lead to foregone tax revenue.

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Fiscal cost to the taxpayer (2008-09)

Category	Scenario 1 (\$million)	Scenario 2 (\$million)	Scenario 3 (\$million)
Social Development	\$ 406	\$ 464	\$ 522
Working for Families Tax Credits	\$ 290	\$ 331	\$ 372
Health	\$ 121	\$ 138	\$ 156
Justice	\$ 6	\$ 7	\$ 8
Corrections	\$ 38	\$ 44	\$ 49
Police	\$ 41	\$ 47	\$ 53
Housing	\$ 34	\$ 39	\$ 44
Total	\$ 936	\$ 1,070	\$ 1,203

Sources: Budget Economic and Fiscal Update (2008), NZIER

Note: Scenario two is based on an assumed relationship between family breakdown and family poverty of 20 percent, and scenarios one and three are based on a range around this assumption of 5 percent (17.5 percent and 22.5 percent)

If it is assumed that the assumptions employed remain unchanged over time, the aggregate fiscal cost to the New Zealand taxpayer over the last decade is in the order of \$8 billion (based on a 20 percent relationship between family breakdown and family poverty).

These estimates of the annual cost to New Zealand taxpayers can be compared to estimates of £15 billion a year (£572 per taxpayer) in the United Kingdom and \$112 billion a year (US\$811 per taxpayer) in the

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United States (Lindsay, 2000; Scafidi, 2008).

These estimates of the taxpayer cost in New Zealand should, however, be qualified by the need for further research and debate on the assumptions employed in this paper, particularly those relating to:

- the relationship between family breakdown and decreasing marriage rates and poverty among families with children
- the relationship between changes in poverty rates and levels of government expenditure in a range of policy areas.

There is a significant gap in empirical research in these areas.

Nevertheless, the largest areas of cost relate to income transfers (both through the social welfare and taxation systems), followed by costs to the health and justice systems. Further, the magnitude of these costs suggests that even a small reduction in family breakdown and increases in marriage rates could provide significant savings for taxpayers.

The discussion in this report has implications for a range of policy areas. In particular, international experience supports the use of a range of programmes and services to reduce unwed pregnancy among teen mothers and to help prepare couples for and support them during marriage. The further development of such programmes and services could provide a fruitful direction for government policy in New Zealand.

Increased empirical research on the relationship between government policy and family form in New Zealand would also be fruitful. This empirical research could include a review of the interaction of tax-benefit programmes and incentives for marriage and work, and the effects of these incentives on decisions for partnering or misreporting partnership status.

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