

# The **Value** of Family

Fiscal Benefits of Marriage And Reducing  
Family Breakdown in New Zealand





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# Preface

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## Authorship

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# Executive Summary

**Family breakdown and decreasing marriage rates are seldom considered in debate on social policy issues, such as poverty among families with children, in New Zealand.**

Family breakdown and decreasing marriage rates are seldom considered in debate on social policy issues, such as poverty among families with children, in New Zealand.

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.

**The fiscal cost to the taxpayer of family breakdown and decreasing marriage rates has been estimated at around \$1 billion.**

## 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
<b>Total</b>	<b>\$ 936</b>	<b>\$ 1,070</b>	<b>\$ 1,203</b>

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

**The assumptions employed in this study deliberately understate the taxpayer cost of family breakdown and decreasing marriage rates.**

**Even a small reduction in family breakdown and increases in marriage rates could provide significant savings for taxpayers.**

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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# 1. Introduction

Family breakdown and decreasing marriage rates are seldom considered in debate on social policy issues, such as family poverty, in New Zealand. 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 there are several features of the New Zealand environment that suggest it is unwise to overlook family breakdown and decreasing marriage rates in New Zealand. These features include internationally high rates of teen childbearing, internationally high rates of sole parenthood, and significant marriage penalties created by income transfer programmes, particularly for families with children.

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 (Kalil, 2003; Mackay, 2003)).

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.

The key components of this report are:

- marriage and parenthood in New Zealand: this section contains a review of evidence on changes in rates of marriage and sole parenthood, including New Zealand's high rates of teen and sole parenthood
- the private costs of family breakdown and decreasing marriage rates: this section reviews data and research on poverty and low living standards in New Zealand
- the social costs of family breakdown and decreasing marriage rates: this section develops estimates of the fiscal cost of family breakdown and decreasing marriage rates and identifies key policy areas that these costs are related to
- the role of incentives and welfare: this section highlights the potential effect of the tax-transfer system (e.g., marriage penalties) on decisions relating to family breakdown and decreasing marriage rates.

This report concludes with a number of recommendations for government policy. An annex to this report summarises New Zealanders' views on what makes marriage work.

There are significant gaps in empirical research on the issues raised in this report and as many of the issues raised involve complex trade-offs and judgements the approach taken has been to be explicit about where costs have been able to be clearly identified and where assumptions regarding the nature of costs are crucial for the analysis.

**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.**

**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.**

## 2. Marriage and Parenthood

**The marriage rate has been declining since 1971.**

New Zealand families are becoming more diverse. Since the 1970s New Zealand has seen the breakdown of the breadwinner model of social arrangements, increasing numbers of sole parent families, increasing numbers of dual-income families, and people increasingly cohabitating without entering into marriage (Callister, 2000, 2001). The first part of this report thus discusses the trends for marriage and parenthood in New Zealand.<sup>1</sup>

### 2.1 Marriage

Statistics New Zealand calculate the general rate of marriage as the number of marriages per 1,000 mean not-married estimated population aged 16 years and over. Figure 1 shows the general rate of marriage in New Zealand from 1961 to 2007.

Although there have been year-to-year variations, the marriage rate has been declining since 1971 (when there were 27,199 marriages (4,385 remarriages), giving a marriage rate of 45.5 per 1,000 people over 16). The current marriage rate is low in historic terms. There were 21,494 marriages registered during 2007, which gave a general marriage rate of 13.7 per 1,000 people over 16. Of these marriages 7,138 were remarriages.

Factors that have contributed to a decline in the marriage rate include the growth in de facto unions, the trend towards delayed marriage, and increasing numbers of New Zealanders not marrying.

A greater proportion of people are remaining in relationships in the nature of marriage without entering into formal unions. These de facto unions are becoming particularly common for younger New Zealanders. As Statistics New Zealand (2007) noted, in 1996 around one in four people aged 15 to 44 in a partnership were not legally married, and by 2006 this had increased to around two in five.

**De facto unions are becoming particularly common for younger New Zealanders.**

Recent legislative change has provided partnering families (including same-sex families) the option of undertaking a civil union. There are, however, still relatively few of these arrangements. There were 278 civil unions in 2005, 430 in 2006, and 393 in 2007. If we exclude overseas-based civil unions the figures drop to 249 in 2005, 374 in 2006, and 316 in 2007.

In contrast to the overall marriage rate, the proportion of marriages in which one or both partners had previously been divorced or widowed (the remarriage rate) has been increasing. In 1971, 16 percent of marriages involved one or both partners remarrying. By 2007 the percentage had risen to 33 percent.

Many marriages 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. This can be compared to a median duration of 12.6 years for marriages dissolved in 1996. The upturn in the median duration of marriage may be attributed partly to the breakdown of more long-term marriages, particularly those over 25 years duration (Statistics New Zealand, 2007).

### 2.2 Divorce

The divorce rate is calculated as orders for dissolution of marriage granted in New Zealand per 1,000 estimated existing marriages. Figure 2 shows the trend in the number of divorces and divorce rate in New Zealand since 1961.

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1. Data limitations mean that this report does not differentiate between biological parents and step parents (e.g., partnered parents who have remained in the one relationship are treated as equivalent to step parent families).

The sharp rise in the number of divorces around 1981 reflects the introduction of the Family Proceedings Act 1980, which meant that an application for marriage dissolution could be made by either the husband or wife on the grounds that the marriage had broken down irreconcilably provided that a two-year separation requirement was satisfied.

Consequently divorce increased to a temporary high of 12,395 (a rate of 17.1 per 1,000 marriages) in 1982. Since this date the number and rate of marriage dissolutions dropped, and between 1983 and 2007 fluctuated between 13.3 (in 1983) and 11.3 per 1,000 marriages (in 2007).

A key trend relating to the social outcomes of divorce is the changing number of children in divorcing families. As shown in Figure 3, since 1987 the number of children in divorcing families has decreased from 9,352 (relating to 4,939 divorces, with a mean number of children per divorce involving children of 1.9) to 7,824 (relating to 4,318 divorces, with a mean number of children per divorce involving children of 1.8). The mean number of children per divorce involving children has fallen significantly in the last two years.

One factor in the decreasing numbers of children in divorcing families is the increasing age at which divorce is taking place. In 1987 the median age at divorce for males was 37.7 and for females was 35.0. By 2007 this had increased to 44.3 for males and 41.6 for females. This later age of divorce is likely to partly reflect the trend towards later marriages (Statistics New Zealand, 2003).

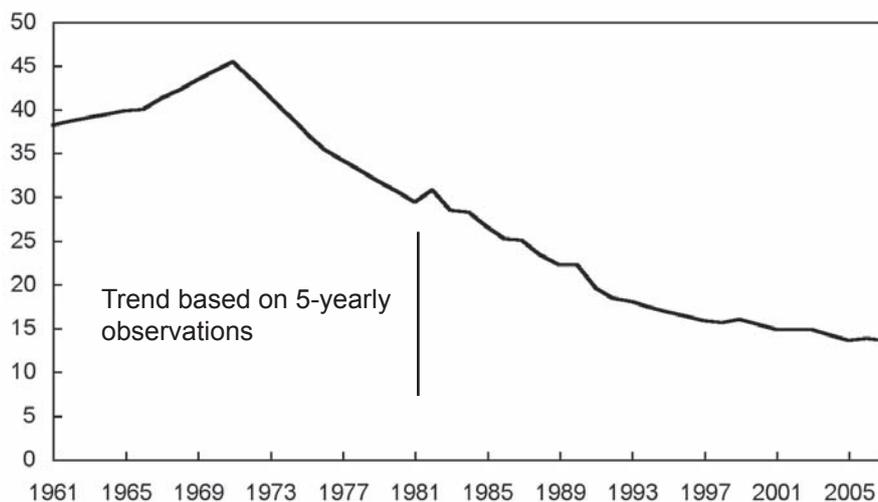
### 2.3 Teenage parents

As noted by Jacobsen et al (2002), the teenage birth rate in New Zealand is high by OECD standards, particularly for young Maori and Pacifica women, and appears to have risen since 1984. Teenage childbearing has long-lasting effects on the wellbeing of the women and children involved, which result from interrupted education, reduced earning potential, and reduced career prospects (Statistics New Zealand, 2003).

**The sharp rise in the number of divorces around 1981 reflects the introduction of the Family Proceedings Act 1980.**

## Figure 1 General rate of marriage

Per 1,000 not-married persons aged 16 and over

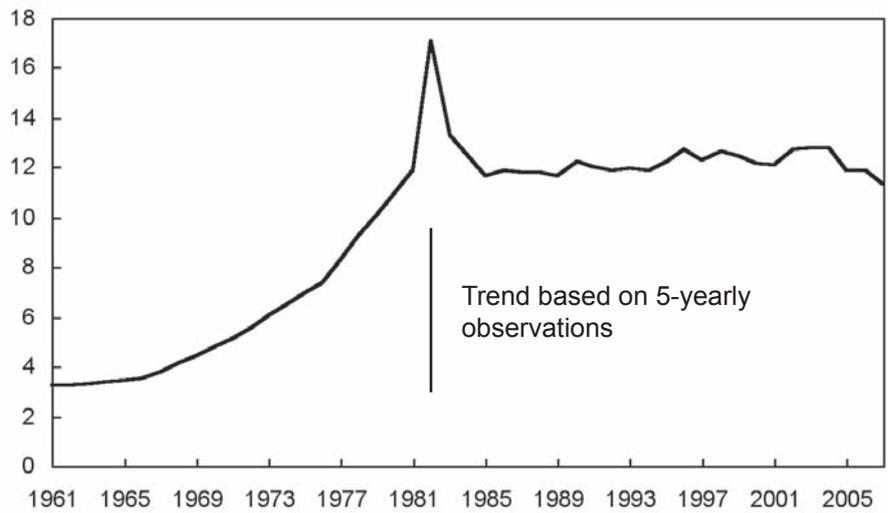


Source: Statistics New Zealand

**The mean number of children per divorce involving children has fallen significantly in the last two years.**

### Figure 2 Divorce Rate

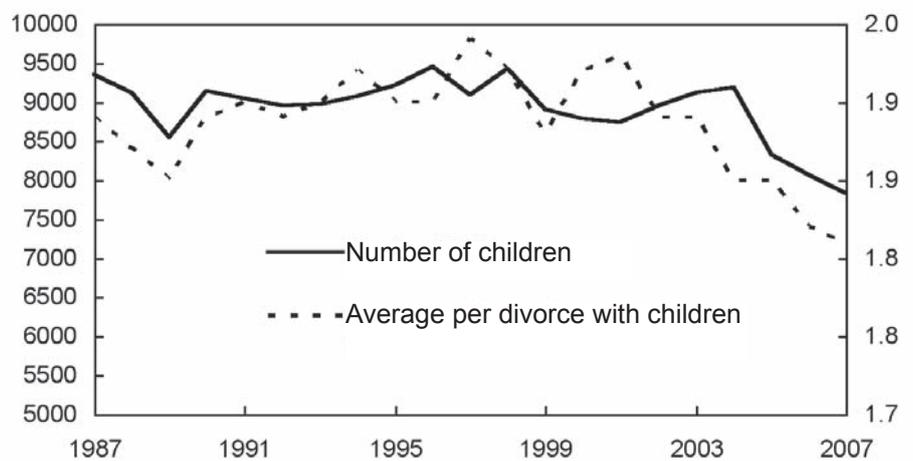
Per 1,000 marriages



Source: Statistics New Zealand

### Figure 3 Children in divorcing families

Number of Children (Under 17)



Source: Statistics New Zealand

### Teenage births

Births to teenager mothers increased by 72 percent from 5,315 (8.2 percent of all births) in 1962 to a high of 9,150 (14.5 percent of all births) in 1972. The peak in 1972 was followed by a sharp drop over the next decade. By 1982 births to teenagers had more than halved to less than 4,500. There was a partial recovery in births during the period 1983 to 1990. However, the general trend was downward (Statistics New Zealand, 2003).

The recent trend for births to teenage mothers is illustrated in Table 1. The table shows that the percentage of births to teenage mothers remained relatively static from 2000 to 2003, but has increased for the three years since 2004. However, it is too early to say whether this data indicates a longer-term trend towards increasing births to teen mothers. It is also necessary to recognise that a proportion of teen parents are either legally married or in relationships in the nature of marriage at the time of the birth of a child.

Teenage births by ethnic group are shown in Table 2. When discussing teenage births by ethnicity it is necessary to recognise that mothers and babies may belong to more than one ethnic group. Where mothers have recorded multiple ethnicities, each birth has been included in each separate ethnic group (meaning that some births are counted more than once). As Statistics New Zealand (2007) has noted, in the December 2006 year around 65 percent of Maori births to teen mothers, 49 percent of Pacifica births to teen mothers, 30 percent of European births to teen mothers and 31 percent of Asian births to teen mothers belonged to two or more ethnic groups.

**Teenage childbearing has long-lasting effects on the wellbeing of the women and children involved.**

**Table 1 Live births by mother's age 2000 to 2006**

	Median Age of Mother (Years)	Number of Teen Births <sup>(1)</sup>	Teen Births as Percentage of All Births
2000	29.7	3,818	6.7
2001	29.8	3,773	6.8
2002	30.1	3,622	6.7
2003	30.2	3,784	6.7
2004	30.3	4,044	7.0
2005	30.4	4,136	7.2
2006	30.3	4,373	7.4

Source: Statistics New Zealand

Notes: (1) Some births are counted more than once as each birth has been included in every ethnic group stated by the mother

**The New Zealand teenage fertility rate was the second highest, behind the United States. It was almost twice the rate of Australia and Canada, and over four times the rate in Denmark, Japan, Netherlands, Sweden and Switzerland.**

**Table 2 Live births by mother's age and ethnicity 2006**

	Median Age of Mother (Years)	Number of Teen Births <sup>(1)</sup>	Percentage of Teen Births in Group
Maori Ethnic Group	25.9	2,307	16.9
Pacifika Ethnic Group	27.6	630	9.5
Asian Ethnic Group	30.6	109	1.9
European Ethnic Group	31.1	2,468	6.2
Middle Eastern, Latin American And African	31.0	27	3.6
Other	32.4	16	2.3
All Ethnic Groups (1)	30.3	4,373	7.4

Source: Statistics New Zealand

Notes: (1) Some births are counted more than once as each birth has been included in every ethnic group stated by the mother

Table 2 nevertheless illustrates the relatively high percentages of births to teenage mothers for the Maori (at 16.9 percent of Maori births) and Pacifika (at 9.5 percent) populations. These rates of births to teen mothers are reflected in a relatively low median age of mothers for these people, of 25.9 years for the Maori and 27.6 years for the Pacifika populations.

For other ethnic groups, the percentages of births to teen mothers were 6.2 percent for European mothers, 3.6 percent for Middle Eastern, Latin American and African mothers, 1.9 percent for Asian mothers, and 2.3 percent for mothers identifying with other ethnic groups.

### International teen fertility rates

Teen fertility rates are calculated by relating births to teenagers during a given year to the estimated number of teenagers in that year. Teen fertility rates of New Zealand and a range of OECD countries are shown in Figure 4. Figure 4 indicates that New Zealand does not compare favourably with many of these countries. The New Zealand teenage fertility rate (28.4 per 1,000 teenagers aged 15 to 19 in 2006) was the second highest, behind the United States (40.4 in 2005). The New Zealand rate was similar to England and Wales (26.9 in 2004) and Scotland (25.8 in 2006). It was almost twice the rate of Australia and Canada, and over four times the rate in Denmark, Japan, Netherlands, Sweden and Switzerland.

In a historical context, within New Zealand the longer-term trend has been for the teen fertility rate to fall. In the early 1970s around 70 out of every 1,000 teenagers had a child in any year. By the mid-1980s the figure had fallen to 30 per 1,000. Subsequently it varied between 30 and 35 per 1,000 until 1997 (Statistics New Zealand, 2003). There was a general downward trend in the five years to 2002, when the fertility rate for teenagers was at a historical low of 25.6 per 1,000. Between 2002 and 2006 the rate increased to 28.4 percent.

There is an ethnic dimension to families' fertility. Both Maori and Pacifica women have larger families than their European counterparts, and they also follow early childbearing norms (Statistics New Zealand, 2003). This is partly reflected in higher fertility rates in teenage years:

- Maori teenagers (15 to 19) had a fertility rate of 69.0 per 1,000 females in the age group in 2006. This compared to a teenage fertility rate for the population as a whole of 28.1
- Maori and Pacifica teenagers also have relatively high abortion rates, with teenagers accounting for 26.0 percent of Maori abortions and 20.9 percent of Pacifica abortions in 2006. These proportions are, however, lower than that for European teenagers (who accounted for 27.2 percent of this ethnic group's abortions in 2006). These proportions of abortions for which teenagers account suggest that fertility indices understate pregnancy levels among teenagers.

**These proportions of abortions for which teenagers account suggest that fertility indices understate pregnancy levels among teenagers.**

### Abortion rate

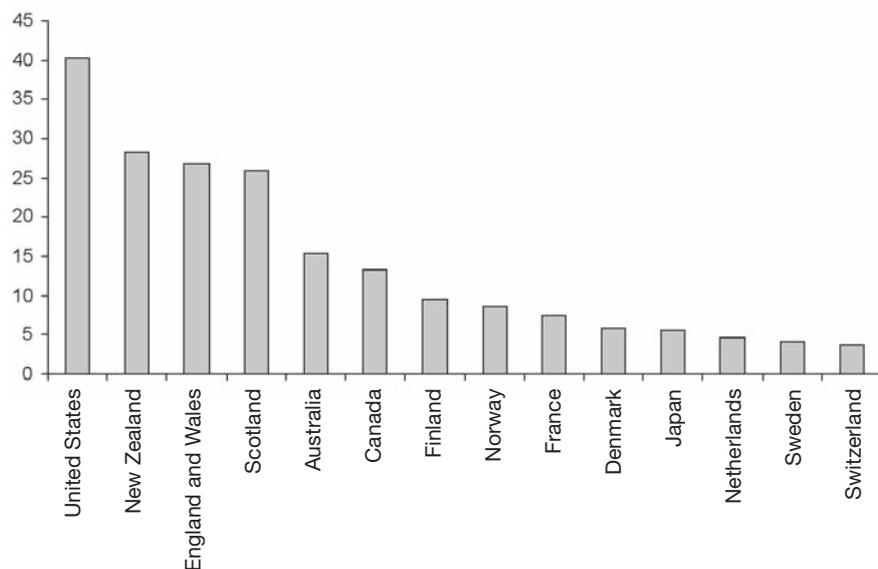
Since 1980 there has been a significant increase in the rate and number of abortions in New Zealand. The general abortion rate (per 1,000 mean number of women aged 15 to 44) increased from 5.3 in 1979 to a peak of 20.8 in 2003, with the rate of live abortions per 1,000 births increasing from 70 to 330 (Statistics New Zealand, 2007). The teenage abortion rate has almost doubled since 1980 (Statistics New Zealand, 2003).

As Statistics New Zealand (2007) have noted, there were 17,934 abortions in the December 2006 year. This represented a general abortion rate (per 1,000 mean number of women aged 15 to 44) of 19.6, or 303 abortions per 1,000 live births. The general abortion rate of 19.6 in New Zealand in 2006 was similar to that of Sweden (20.2 in 2005), the United States (20.8 in 2003), Australia (19.3 in 2004), and England and Wales (17.8 in 2005).

**The teenage abortion rate has almost doubled since 1980.**

### Figure 4 Teen fertility rates

Per 1,000 mean estimated female population in aged 15 to 19; latest available years



Source: Statistics New Zealand

## **New Zealand's rate of sole parenthood is high by OECD standards.**

Data since 1981 indicate that women aged 20 to 24 account for the largest proportion of abortions. Women aged 25 to 29 account for the second largest proportion, although teenagers older than 15 are not far behind. Women over thirty account for the smallest proportion of abortions.

The median age of women having an abortion in 2006 was 24.5, and this median age had remained stable since 1996 (when the median age was 25.0). However, the abortion rate for teenagers aged 15 to 19 increased from 1996 (when the rate was 22.0 per 1,000 women) to 2006 (when the rate was 25.8 per 1,000 women). The rate for teenagers aged 11 to 14 also increased (from 0.6 in 1996 to 0.9 per 1,000 women in 2006).

### **2.4 Sole parents**

When discussing rates of sole parenthood it is important to note that, although the discussion below emphasises the legal marriage rates of sole parents, a proportion of sole parents are in de facto relationships at the time of the birth of their first child and later marry. There are, furthermore, important gaps in the descriptive data on sole parents in New Zealand (such as reasons for entering the Domestic Purposes Benefit and the degree to which separated families share income and caring responsibilities) (Callister and Birks, 2006).<sup>2</sup>

The most comprehensive data source on sole parents is the five-yearly population census, which illustrated that in 2006 sole parents with dependent children made up 30 percent of families with children. This was down slightly from the level in 2001 (of 31 percent) but above the levels for 1996 (28 percent) and 1991 (26 percent). Women made up 83 percent of all sole parents in 2001, a figure which had changed little since 1996 (85 percent). In 1996 the majority of female sole parents were aged between 25 and 39 and 16.5 percent of female sole parents were aged under 25 years (Statistics New Zealand, 2003).

Differences in the age profile of male and female sole parents reflect differences in marital status. Women are more likely than men to be responsible for children born to relatively young parents who are not married or in stable de facto relationships, whereas male sole parenthood most commonly results from the dissolution of marriages or partnerships (Statistics New Zealand, 2003).

Male sole parents are more likely to be engaged in full-time work than female sole parents. In 2001 around 61 percent of male sole parents were employed, with the majority (53 percent) working full-time (as opposed to 8 percent working part-time). Around 46 percent of female sole parents worked in 2001, with the numbers working full-time (25 percent) and part-time (21 percent) relatively evenly split.

Maori and Pacifica women are considerably more likely than women from other ethnic groups to be sole parents. In 1996, 20.6 percent of Maori women aged 15 years and over were sole mothers, compared to 15.1 percent of Pacifica women, 5.9 percent of European women and 5.2 percent of Asian women.

In relation to the number of children in families Census data from 1991 to 2001 indicate that sole parents were more likely to have one child than partnered parents. In 2001 around 53 percent of sole parents had one child and 30 percent had two children. Around 35 percent of partnered families had one child and 39 percent two children. There was little change in these ratios over the decade to 2001.

## **Women made up 83 percent of all sole parents in 2001.**

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2. It is important to recognise population heterogeneity when discussing causes of sole parenthood. The younger average age of Maori and Pacifica parents indicates that their sole parenthood is more likely to be due to not having entered into a relationship, while the older age of European and Asian parents indicates that their sole parenthood is more likely to reflect relationship breakdown.

New Zealand's rate of sole parenthood is high by OECD standards. New Zealand's rate of birth outside marriage (of 44.8 per 1000 women aged 15 or over) for 2004 was sixth highest of the 29 OECD countries for which there were data (OECD, 2008). The concept of marriage used by the OECD does not include common law or de facto relationships. The New Zealand rate compared to an OECD average of 30.9 per 1000 women aged 15 or older, and was higher than the United Kingdom (44.8), the United States (35.7), Australia (32.2) and Canada (27.6). New Zealand's rate was lower than Denmark (45.4), France (46.4), Norway (51.4), Sweden (55.4), and Iceland (63.7).

Figure 5 compares New Zealand's rate of sole parenthood as a proportion of all families with children with the rates of other OECD countries. Unfortunately there is a paucity of recent comparable data on household structure and the data in the figure are drawn from a range of dates (from 1996 in New Zealand to 2000 in some European countries). These data should thus be seen as indicative only. They do nonetheless reinforce the high rate of sole parenthood in New Zealand (with sole parents in New Zealand accounting for the largest proportion of families with children). New Zealand was followed by the United States, Canada, Australia and the United Kingdom.

**Women are more likely than men to be responsible for children born to relatively young parents who are not married or in stable de facto relationships.**

### **3. Private costs of family breakdown and decreasing marriage rates**

The following section of this report discusses the private costs of family breakdown and decreasing marriage rates in New Zealand. There is a large international literature on the poor social outcomes from family breakdown and decreasing marriage rates, and a key lesson from this literature is that, as noted by Kerr (in Morgan, 1994):

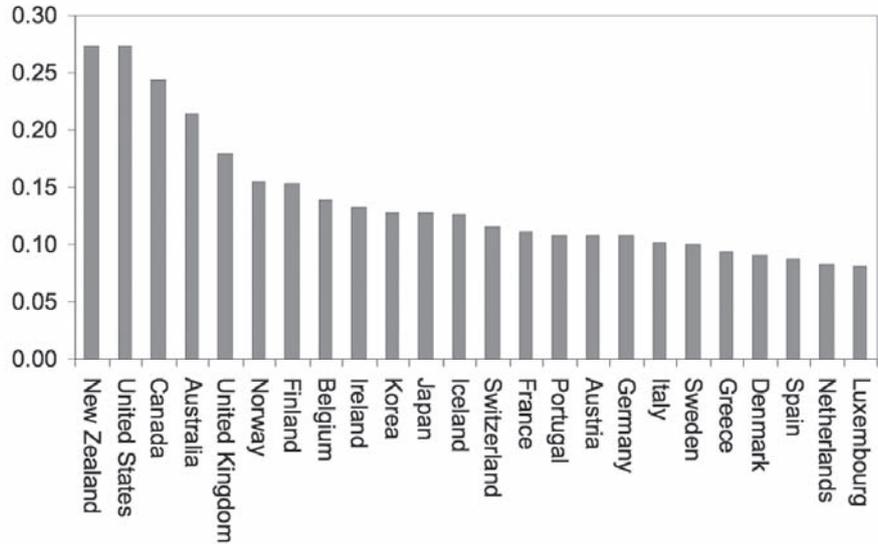
*The point is not that children brought up in nuclear families always do better than, say, children brought up by sole parents. Many sole parents do a fine job. Rather, the point is that, on average, two-parent families fare better, and this is what matters for social policy. [...] This finding is not a criticism of sole parents.*

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 (Scafidi, 2008). There is also growing research on the issue of whether the underachievement of boys relative to girls in education is linked to fatherless families (Buchmann and DiPrete, 2006). In this report emphasis is given to the effect of family breakdown and decreasing marriage rates on family poverty.

An important caveat to the approach taken below is that there is a lack of empirical evidence in New Zealand on the degree to which family breakdown and decreasing marriage rates has a causal effect on poverty (as opposed to simply being correlated). Selection effects may mean, for example, the poverty associated with family breakdown and decreasing marriage rates is caused by traits or circumstances that also lead to divorce and non-marital childrearing.

**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.**

**Figure 5 Sole parents as a proportion of families with children 1996**



Source: OECD

**In the U.S. it has been noted that the large majority of divorces do not follow high conflict marriages and that divorce can lead to relatively poor child outcomes when low conflict marriages end.**

Overseas research on the connection between family fragmentation and poverty among families with children has, nonetheless, illustrated that marriage could help to reduce poverty because there are two potential wage earners in the home and because of changes in preferences and behaviours that may occur when two people marry (Scafidi, 2008). Marriage can also allow people to share resources and allow fixed household costs to be spread over a larger number of people (providing economies of scale).

It is important to recognise that in some cases divorce may help avoid negative family outcomes (such as in a high conflict marriage) (Scafidi, 2008). However, in the United States it has been noted that the large majority of divorces do not follow high conflict marriages and that divorce can lead to relatively poor child outcomes when low conflict marriages end (Amato et al, 1995).

### 3.1 Poor family outcomes

This report emphasises the relationship between family fragmentation and poverty among families with children. Research on poverty in New Zealand has consistently illustrated that sole parents are relatively likely to lie toward the lower end of the income distribution (Perry, 2004; Stephens, 1999; Stephens and Waldegrave, 2001; Waldegrave et al, 2003; St John and Craig, 2004). The incidence of poverty among families with children by family type in 2007 in New Zealand is shown in Table 3. For children living in sole parent families the rate of poverty is five times as high as that for children in couple households (Fletcher and Dwyer, 2008).

**For children living in sole parent families the rate of poverty is five times as high as that for children in couple households.**

**Table 3 Poverty among families with children**

	Number of Children	Percent
All Children	170,000	16
Couple Household	82,000	9
Sole Parent Household	65,000	49
Other Household (Multi-Adult etc)	24,000	18

Source: Fletcher and Dwyer, 2008

Notes: Includes housing costs, poverty threshold based on 60 percent of equivalised median disposable income

To illustrate the significance of the difference in poverty rates between sole and partnered parents:

- if the rate of poverty of sole parents was to drop (by around 82 percent) to that of married households then around 53,000 children would be moved out of poverty (representing a 31 percent fall in total poverty among families with children)
- if the 40 percent gap in the rate of poverty between sole and partnered parents was to fall by 60 percent (leading to a rate of poverty for sole parents of 25 percent), then around 32,000 children would be moved out of poverty and the total poverty rate for families with children would fall by 19 percent
- if all poverty among sole parent households was to drop by 60 percent, the poverty rate of sole parents would fall to 20 percent, around 38,000 children would be moved out of poverty and the total rate of poverty among families with children would fall by 23 percent.

The poverty rate for children in families where there is no full-time worker is six times higher than for those where at least one adult is in full-time work. Almost two-thirds of children in poverty are in households without paid employment or with only part-time work (who will be in families receiving a work and income benefit (Fletcher and Dwyer, 2008)). This highlights the importance of improving opportunities to participate in paid work as a route out of poverty.

Factors such as age of youngest child and family size are also correlated with low incomes:

- the distribution of family incomes by age of youngest child indicates that families with younger children are more likely to have lower incomes and that generally the level of family income rises with the age of youngest child<sup>3</sup>
- there is also some correlation between family size and income, with larger families being less likely to have higher incomes than smaller families (Mowbray, 2001).

Poverty rates are also significantly higher among Maori and Pacifica children than Pakeha children. These relatively high rates of poverty reflect Maori and Pacifica groups' larger families, lower employment rates, and lower work incomes on average (Stephens, 1999).

**The poverty rate for children in families where there is no full-time worker is six times higher than for those where at least one adult is in full-time work.**

3. Based on this lifecycle pattern of family income it has been argued that the design of New Zealand's Working for Families Tax Credits too heavily weights assistance towards older children (Middleton et al, 1997; Nolan, 2005).

**Table 4 Costs of poverty among families with children**

	Costs to the Child	Consequences for Society and for Social Spending
Impact of Poverty in Childhood	<ul style="list-style-type: none"> <li>• Material and social hardship</li> <li>• Higher incidence of mental and physical illness</li> <li>• Higher incidence of accidental injury, physical abuse and neglect</li> <li>• Knock-on effect on development during childhood</li> <li>• Social exclusion – reduced aspirations, loss of confidence</li> </ul>	<ul style="list-style-type: none"> <li>• Extra spending on preventable child problems – e.g., health, remedial education</li> <li>• Extra services, problems in school, spending on protective care, anti-social behaviour, childbearing when young and unsupported</li> </ul>
Future Consequences	<ul style="list-style-type: none"> <li>• Greater chance of material hardship in adulthood, linked to continuing disadvantage</li> <li>• Poorer health in adulthood, psychological wellbeing, ability to achieve life goals</li> <li>• Consequences for own children</li> </ul>	<ul style="list-style-type: none"> <li>• Extra spending on long-term consequences such as poor health, crime</li> <li>• Reduced economic capacity resulting from failure of individuals to reach potential</li> <li>• Further spending on poverty caused by intergenerational cycle of disadvantage</li> </ul>

Source: Fletcher and Dwyer, 2008

**Poverty rates are also significantly higher among Maori and Pacifica children than Pakeha children.**

There have been a wide range of poor outcomes associated with poverty. These outcomes are summarised in Table 4 and include:

- health effects such as a greater risk of dying during childhood, developmental delay and illness, poor nutrition, higher rates of physical abuse and neglect of children
- impacts on children’s cognitive development and subsequent educational outcomes, and consequent employment and earnings outcomes in adulthood (Fletcher and Dwyer, 2008).

An alternative perspective on poor child outcomes is provided by living standards data. Perry (2002) argued that internationally there is a mismatch between income-based and outcome-based poverty measures typically in the range of 50 to 60 percent. Nevertheless, living standards research in New Zealand has illustrated that beneficiary families, sole parents, and Maori and Pacifica groups are relatively likely to have low living standards. Sole parents have the lowest average living standards of all economic family unit types.

These poor outcomes for sole parents can partly be explained by the high proportion of sole parents who rely on an income-tested benefit for an

income source (Jensen et al, 2003). Working families have better living standards than beneficiary families even when family incomes are similar. Employment thus plays an important role in influencing living standards and variations in living standards can only be partly explained by income differences.

## 4. The role of incentives and welfare

There is a lack of robust New Zealand research on the relationship between government policy and family breakdown and decreasing marriage rates. Nevertheless, based on a comprehensive review of international and available New Zealand research, Robertson et al (2006) concluded that “government policies appear to have very limited direct effect on partnership formation, dissolution and reconstitution, fertility decision-making and family living size, and living arrangements”.

Yet, as Robertson et al (2006) also noted, although the direct effect of government policy could be small, policy also influences family form indirectly through shaping factors such as economic insecurity. Thus, while recognising the need for further empirical research on decisions on family form in New Zealand, this section of the report highlights the potential effect that the tax-transfer system (e.g., marriage penalties) has on family breakdown and decreasing marriage rates.

### 4.1 Family form and benefit receipt

The relationship between benefit receipt and family form has been widely studied internationally. Evidence from the United States suggests that higher levels of welfare benefits are associated with higher rates of sole parenthood and lower rates of marriage. There is, however, no consensus about the size of this association (which varies among groups). The international evidence suggests that levels of welfare may influence family form primarily by affecting rates of ex-nuptial births or marriage among cohorts that have not yet entered the welfare system (Robertson et al, 2006).

There has been little research on the relationship between benefit receipt and family form in New Zealand. The available New Zealand research on the Domestic Purposes Benefit, however, has not found that this benefit actively encouraged relationship breakdown among couples or pregnancy among single women (Goodger, 1998).

Yet it is likely that the Domestic Purposes Benefit means that single women are able to keep children who might in previous decades have been given up for adoption and that some parents no longer need to remain in marital relationships through financial necessity or to form relationships in order to gain financial security (Robertson et al, 2006). Indeed, as the Department of Social Welfare (1988, in Robertson et al (2006)) concluded:

*while incentive effects do not show up as the only or even the most significant factor in the changes to parenting arrangements for ex-nuptial children which have occurred, [...] incentive effects might be significant in decisions about parenting arrangements, if not about choice to have a child.*

**Living standards research in New Zealand has illustrated that beneficiary families, sole parents, and Maori and Pacifica groups are relatively likely to have low living standards. Sole parents have the lowest average living standards of all economic family unit types.**

**Higher levels of welfare benefits are associated with higher rates of sole parenthood and lower rates of marriage (U.S. research).**

There is also a likely relationship between family form and benefit duration. Wilson (1999) examined administrative data on the duration of receipt of and numbers of spells on main working-aged social welfare benefits, excluding supplementary benefits and New Zealand Superannuation, between 1993 and 1998 for a cohort of around 250,000 people who were granted a working aged benefit in 1993.

This paper found that the duration of the first spell on a benefit varied among the benefit types. It was estimated that approximately three percent of Unemployment Benefit recipients spent all of the five years from 1993 to 1998 receiving a benefit. In contrast, it was estimated that approximately 26 percent of Domestic Purposes Beneficiaries spent all of the five years receiving a benefit (Wilson, 1999).

Benefit duration has an important influence on the rate and incidence of jobless families, poverty and low living standards. The probability of a person's spell on a social welfare benefit ending decreases as benefit duration increases. This could be due to a wide range of factors, such as reservations employers may have about hiring long-term unemployed workers, discouragement that may arise when a person has been unable to move off a benefit for a long period, or a composition effect, where, as the length of time on benefit increases, people with low probabilities of employment account for greater proportions of those who receive assistance (Wilson, 1999; Wilson, 2002).

#### **4.2 Marriage penalties**

Marriage penalties and poverty traps indicate how families are influenced by the family income assistance system when they change their work effort or family structure:

- marriage penalties occur when two parents (or spouses) have a higher total income (net of income transfers and living costs) when separated than when a partnered unit. The presence of marriage penalties means that some people are discouraged from entering into or remaining in a relationship in the nature of marriage by the family income assistance 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.

Although there has been little independent research on poverty traps in New Zealand (Boston and St John, 1999; Nolan, 2005; St John and Rankin, 2002), there has been practically no research on marriage penalties in the tax-benefit system (exceptions being Johnson (2005), Nolan (2008) and Fitzgerald et al (2008)). This lack of research is unusual given that tax-benefit reforms in countries such as the United States over the last 20 years have clearly seen both issues as related (e.g., by emphasising both moving sole parents off welfare and into paid work and reducing levels of sole parenthood).

There is international evidence that marriage penalties impact on rates of marriage, although the precise scale of the effect may be relatively modest (Alm and Whittington, 1995, 1996 and 1999). Recent key research includes:

- Fitzgerald et al (2008): found that between 2005 and 2007 New Zealand's Working for Families reforms had little effect on partnering decisions, but that these decisions can be expected to change less quickly than labour supply ones and larger impacts on partnering may be expected over a longer time horizon

**The probability of a person's spell on a social welfare benefit ending decreases as benefit duration increases.**

- Anderberg (2007): found that in the United Kingdom an £100 per-week welfare benefit partnership penalty reduces the probability of a woman having a partner by seven percentage points
- Lopez-Laborda and Zarate-Marco (2004): concluded that the Spanish tax system had an effect on decision to marry, although the effect is highly reduced in comparison with the other variables such as unemployment and education levels
- Eissa and Hoynes (2004): found that there was a relationship between tax/transfer penalties and marriage rates, but that it was quite modest (a reduction in the marriage income tax penalty of \$1,000 would raise the probability of marriage by 0.4 percent)
- Ellwood (2000): found that there was an increase in cohabitation attributable to the fact that cohabiting couples faced a marriage penalty under the Earned Income Tax Credit.

**The presence of marriage penalties means that some people are discouraged from entering into or remaining in a relationship in the nature of marriage by the family income assistance system.**

The magnitude of marriage penalties depends on an array of specific tax-benefit programmes. Poverty traps and marriage penalties arise from the complex interaction of a wide range of family income assistance programmes. In New Zealand these programmes include the personal income tax scale, the ACC earners' levy, the Working for Families Tax Credits (the Family Tax Credit, the In-Work Tax Credit, and the Minimum Family Tax Credit), main welfare benefits (the Unemployment Benefit and Domestic Purposes Benefit), the Accommodation Supplement, and Child Support.

Marriage penalties and poverty traps are difficult to measure. One source of difficulty is the (often complex) interaction tax-benefit programmes. Different programmes often use different definitions of what counts as income, income units (individual, family, and household), income periods (annual, fortnightly, or weekly), and implementation agencies (the Inland Revenue Department and the Ministry of Social Development) and be earned and abated in different ways. Population heterogeneity is a further source of difficulty, with financial incentives differing among people with different characteristics, depending on factors such as hours of work, wage rates received, marital status, number and ages of children, availability of childcare, accommodation needs, and receipt of other assistance.

To illustrate the incidence and depth of marriage penalties and poverty traps the NZIER developed a model that calculates the interaction of these family income assistance programmes for a range of family types and which contains the programmes listed above (Nolan, 2008). This research produced the first estimates for marriage penalties in New Zealand that contained changes in Child Support liability and eligibility and in accommodation costs from changing family status. Some results from this modelling were:

- marriage penalties are higher for families with children than for families without, which reflects the greater provision of targeted assistance to families with children
- poverty traps are higher for families without children at lower income levels, but higher for families with children at higher income levels. This reflects the fact that for families with children the clawback of assistance takes place at higher incomes and/or at lower rates of abatement (as illustrated by the higher abatement of the Unemployment Benefit at lower incomes than the Domestic Purposes Benefit), which means that abatement takes place over a longer income range. This result also reflects the greater levels of targeted assistance provided to families with children

**Poverty traps and marriage penalties arise from the complex interaction of a wide range of family income assistance programmes.**

**Marriage penalties are higher the greater the disparity between the primary and secondary income earners' incomes.**

- for families with and without children, at the range of incomes shown marriage penalties are higher the greater the disparity between the primary and secondary income earners' incomes. This reflects the situation where one person has to largely forego an unabated independent income, the other person faces additional clawback of assistance, and there is little increase in the household gross income.

As well as these financial incentives, people's decisions regarding work effort and family structure are influenced by many other factors, including social norms, uncertainty and the administration of the family income assistance system. Indeed, research findings on New Zealanders' views on what makes a marriage work (contained in Appendix A) demonstrate the wide range of factors that influence these relationships.

Nevertheless, economic security factors are important, with around half of the respondents identifying good housing and an adequate income as very important for making a successful marriage. Further, while financial incentives are more likely to influence decisions regarding work effort than decisions regarding family structure, both marriage penalties and poverty traps may have significant effects on the perceived fairness of and the administration and compliance costs associated with the family income assistance system.

## **5. Social costs of family breakdown and decreasing marriage rates**

The following section of this report discusses the social costs of family breakdown and decreasing marriage rates in New Zealand. Family breakdown and decreasing marriage rates not only increase fiscal costs to the taxpayer through increasing take-up of government programmes (e.g., the number of children and adults eligible for and in need of income assistance), but also influence the social problems faced by communities – such as crime, family violence, substance abuse, and teen pregnancy (Scafidi, 2008). Both of these categories of taxpayer cost are discussed in this report.

### **5.1 Government expenditure**

This section of the report discusses the fiscal cost to taxpayers of family breakdown and decreasing marriage rates. The approach taken to estimating these costs was as follows. First, line items affected by family breakdown and decreasing marriage rates were selected from the 2008 Budget (for the 2008-09 year) for a range of different Votes. A conservative approach to selecting line items was taken (some potentially relevant line items, e.g., the administrative cost of the Ministry of Social Development, were omitted). These Votes and their line items were:

- Social Development: Childcare Assistance, Domestic Purposes Benefit, Invalid's Benefit, Independent Youth Benefit, Orphan's/Unsupported Child's Benefit, Sickness Benefit, Unemployment Benefit and Emergency Benefit, Accommodation Assistance, Hardship Assistance, Special Benefit and Special Needs Grants
- Revenue: Child Support Payments, Family Tax Credit, Minimum Family

Tax Credit, Child Tax Credit, In-Work Tax Credit

- Health: Public Health Service Purchasing, Health Services Funding, National Disability Support Services, Health and Disability Support Services (Counties-Manukau DHB, South Canterbury DHB, Otago DHB, Southland DHB, Nelson-Marlborough DHB, West Coast DHB, Canterbury DHB, Hutt DHB, Capital and Coast DHB, Wairarapa DHB, Hawkes Bay DHB, Whanganui DHB, MidCentral DHB, Bay of Plenty DHB, Tairāwhiti DHB, Taranaki DHB, Auckland DHB, Waikato DHB, Lakes DHB, Northland DHB, Waitemata DHB), Problem Gambling Services, National Child Health Services, National Contracted Services – Other, National Elective Services, National Emergency Services, National Māori Health Services, National Mental Health Services
- Justice: Crime Prevention and Community Safety, Administration of Legal Services Agency, Legal Aid, Support and Assistance provided by Victim Support to Victims of Crime, Crime Prevention and Community Safety Programmes, Sentencing Council, Legal Services Agency, Independent Police Conduct Authority, Sentencing Council
- Corrections: Community-Based Sentences and Orders, Custodial Services, Custody of Remand Prisoners, Escort and Custodial Supervision, Rehabilitative Programmes and Reintegrative Services, Prisoner Employment, Services to New Zealand Parole Board, Department of Corrections - Capital Expenditure
- Police: Police Primary Response Management, General Crime Prevention Services, Specific Crime Prevention Services and Maintenance of Public Order, Investigations, Case Resolution and Support to Judicial Process, New Zealand Police - Capital Expenditure.

The second stage in estimating the taxpayer costs of family breakdown and decreasing marriage rates was then to assume the proportion of the cost associated with each line item that was due to poverty. The key assumptions by Vote were:

- Social Development: up to 100 percent of expenditure on various benefits and unrequited expenses could be attributed to families having insufficient gross incomes (e.g., market based poverty). No change in departmental was expenses modelled
- Revenue: up to 100 percent of expenditure on various benefits and unrequited expenses could be attributed to families having insufficient gross incomes (e.g., market based poverty). No change in departmental expenses was modelled
- Justice: a uniform 20 percent of costs could be attributed to families having insufficient gross incomes (e.g., market based poverty)
- Corrections: a uniform 20 percent of costs could be attributed to families having insufficient gross incomes (e.g., market based poverty)
- Police: a uniform 20 percent of costs could be attributed to families having insufficient gross incomes (e.g., market based poverty)
- Health: 6 percent of costs could be attributed to families having insufficient gross incomes (e.g., market based poverty), with the exception of National Child Health Services (where 10 percent of health costs could be attributed to poverty).

The proportions of the cost associated with each line item due to poverty were then adjusted for the relationship between poverty and family breakdown. Given the lack of relevant empirical research in New Zealand this adjustment was based on an assumption that family breakdown and decreasing marriage rates could explain 60 percent of the gap in poverty

**Family breakdown and decreasing marriage rates not only increase fiscal costs to the taxpayer through increasing take-up of government programmes but also influence the social problems faced by communities – such as crime, family violence, substance abuse, and teen pregnancy.**

**Family breakdown and decreasing marriage rates could explain 60 percent of the gap in poverty between sole and partnered parents.**

**Families with the lowest third of incomes were overrepresented in child mortality rates.**

between sole and partnered parents. Based on this assumption the rate of poverty among families with children was assumed to fall by between 17.5 and 22.5 percent (see discussion on page 11).

By international standards this is a conservative assumption (similar research in the United States conservatively assumed family breakdown and decreasing marriage rates could explain 60 percent of all poverty in female headed households) and is thus likely to produce a lower-bound estimate of the cost to taxpayers.

Assumptions for social development and revenue expenditures were generally based on the proportion of expenditure on the particular benefit that was received by families with dependent children (based on *The Statistical Report* (MSD, 2007)) or where the payment was clearly related to family breakdown. In the cases of the Family Tax Credit and the work-based In-Work Tax Credit (and Child Tax Credit) assumptions were revised to reflect the spill-over of this assistance to non-poor households.<sup>4</sup> These are conservative assumptions that are likely to understate the taxpayer cost of family breakdown and decreasing marriage rates.

Again given the lack of relevant empirical research in New Zealand, poverty was assumed to account for 20 percent of expenditure in the justice area based on research published by the National Poverty Center at the University of Michigan (Holzer et al, 2007). As this assumed relationship of 20 percent was seen by the authors of this study as conservative, its use in this report is likely to understate the effect of family breakdown and decreasing marriage rates.

Estimates of the health costs of family breakdown and decreasing marriage rates were based on New Zealand research on child mortality, which found that families with the lowest third of incomes were overrepresented in child mortality rates (Shaw et al, 2005). The assumption of 6 percent health costs was based on the result of multiplying two estimates:

- the percentage of health expenditure on individuals aged 0 to 64 (60.1 percent (Ministry of Health, 2004))
- the difference between the rate of child mortality for low-income families and the rate that would occur if mortality was evenly distributed among income groups (around 10 percent).

As National Child Health Services are clearly targeted to children an assumption of 10 percent was used for this expenditure item.

This approach is likely to understate the full cost of family breakdown and decreasing marriage rates on health outcomes, as it does not include costs in terms of lost quantity or quality of life (over and above the effect of poverty on medical expenditures). These latter costs are likely to be significant, with the National Poverty Center estimating the loss of health capital due to poverty at 1.1 percent of GDP in the USA (in contrast to poverty leading to additional direct expenditures on health equivalent to 0.2 percent of GDP) (Holzer et al, 2007).

The estimate of the taxpayer cost of family breakdown and decreasing marriage rates (gross of any potential benefits from the ending of high conflict relationships) is shown in Table 5. Based on the assumptions

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4. The benefits and their assumed expenditure on poverty alleviation among families with dependent children were: Childcare Assistance, 50 percent; Domestic Purposes Benefit, 100 percent; Invalid's Benefit, 10 percent; Independent Youth Benefit, 100 percent; Orphan's/Unsupported Child's Benefit, 100 percent; Sickness Benefit, 10 percent; Unemployment Benefit and Emergency Benefit, 10 percent; Accommodation Assistance, 30 percent; Hardship Assistance, 40 percent; Special Benefit, 40 percent; Special Needs Grant, 40 percent; Child Support Payments, 100 percent; Minimum Family Tax Credit, 100 percent; Family Tax Credit, 60 percent; In-Work Tax Credit (and Child Tax Credit), 25 percent.

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 (see page 21).

**The fiscal cost to the taxpayer of family breakdown and decreasing marriage rates has been estimated at around \$1 billion in 2008-09.**

**Table 5 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
<b>Total</b>	<b>\$ 936</b>	<b>\$ 1,070</b>	<b>\$ 1,203</b>

Source: 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).

This estimate of annual cost in New Zealand can be compared to figures of £15 billion a year (£572 per taxpayer) in the United Kingdom and \$112 billion a year (US\$811 per taxpayer) in the United States (Lindsay, 2000; Scafidi, 2008).<sup>5</sup>

These estimates 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
- 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 in New Zealand.

Nevertheless, the largest areas of cost related to income transfers (both through the social welfare and taxation systems) followed by costs to the health and justice systems. The magnitude of these costs suggests that government programmes addressing family breakdown and decreasing marriage rates could provide significant savings for taxpayers.

Income transfers through the social welfare and tax systems (including the Working for Families Tax Credits) are discussed in greater detail as they

5. The costs per taxpayers are based on an estimated weekly cost for the average taxpayer in the United Kingdom of £11 per week and an assumed 138 million taxpayers in the United States.

**The magnitude of these costs suggests that government programmes addressing family breakdown and decreasing marriage rates could provide significant savings for taxpayers.**

are the two largest areas of taxpayer cost. The main income transfers are shown in Table 6. This table shows expenditure and numbers of recipients by programme for 2008 and the figures are gross of personal income taxes. (To provide context to this discussion, Table 6 also contains figures for tax revenue and New Zealand Superannuation although these data were not contained in the modelling for Table 5.)

**Table 6 Key areas of family income assistance (2008-09)**

	Recipients	\$ Billion
Total Tax Revenue		49.6
Total Social Assistance		17.0
<b>Key Areas of Social Assistance:</b>		
New Zealand Superannuation	509,000	7.7
Working for Families Tax Credits (FTC and IWP)	371,000 <sup>(1)</sup>	2.7
Domestic Purposes Benefit	97,000	1.5
Unemployment Benefit	37,000	0.4
Invalid's And Sickness Benefits	131,000	1.8
Accommodation Supplement	244,000	0.9

Sources: Budget Economic and Fiscal Update (2008), Tables 6.2 and 6.3

Notes: (1) Figure for all WFF tax credits

Overall the total numbers of people in receipt of a main benefit (particularly Unemployment Benefits) have fallen since 1999. In contrast, following Working for Families the expenditure on and coverage of the Working for Families Tax Credits have increased. These credits are currently the most widely received income-tested transfer payment in the income assistance system (New Zealand superannuation is not income-tested) and account for expenditure greater than the Domestic Purposes and Unemployment Benefits combined.

Since the beginning of the century, the two major changes to the income tax and family income assistance systems in New Zealand have been the Working for Families reforms and fiscal drag in the personal income tax scale (where wage increases lead to people slipping into higher tax brackets) (NZIER, 2008). Working for Families increased the expenditure on tax credits to households from \$1 billion in 2000 to \$2.2 billion in 2007, with 371,300 families getting credits during the year ending March 2007.

In contrast, failure to adjust personal income tax thresholds for inflation has meant that taxpayers are now paying an estimated \$1.2 billion more in personal income taxes than in 2000. New Zealand's 2008 budget provided some tax relief, with the lowest personal income tax rate being reduced (from 1 October 2008) and all personal income tax thresholds being progressively increased by 2010.

The Working for Families reforms have been the flagship of the Labour-led Government's social policy agenda since 1999. These reforms have aimed to make work pay, particularly for low-wage parents (including second earners in families) as well as recipients of main welfare benefits. They have also aimed to reduce family poverty. Yet certain features of these reforms have raised concerns. These concerns include:

- exclusion of recipients of main benefits from some assistance
- complexity and administrative cost
- financial discouragement to work facing second earners in many families
- extension of assistance to middle-to-high income families.

The increased financial discouragement to work facing second earners is significant given the increasing proportion of expenditure going to partnered families (increasing from approximately one third to one half of the recipients of the Working for Families Tax Credits) (Johnson, 2005).

## 5.2 Foregone earnings and GDP

The further potential area of taxpayer cost of family breakdown and decreasing marriage rates relates to the effect on gross domestic product from the reduction in female labour supply. The significance of changes in female labour supply for GDP was shown in the New Zealand Treasury working paper 04/07. This Treasury paper (Bryant et al (2004)) identified that New Zealand stood out among OECD countries for having low participation rates for women aged 25 to 34 years and estimated the increase in GDP from increasing their labour participation.

As Bryant et al (2004) note, important caveats need to be considered when estimating the effect of female labour supply on GDP. In particular, approaches generally do not illustrate the value of the foregone time outside of the labour market. Nor do approaches generally illustrate any 'crowding out' effects in the labour market (e.g., they assume that the extra supply of labour fills currently unsatisfied demand) or effects on firms' investments.

Nevertheless, NZIER replicated the model used in Bryant et al (2004) and estimated that, based on 2008 data, a one percent increase in the labour market participation of women aged 15 to 44 could be seen as equivalent to a 0.36 percent one-off increase in the level of GDP. If we assume that this increase in GDP from foregone earnings was to face an average tax rate of 21 percent (the current secondary tax rate that applies to beneficiaries' non-benefit income), then these foregone earnings imply foregone personal income tax revenue of \$135 million.

However, given the caveats around this approach and the need to empirically establish the relationship between changes in partnership status and female labour supply, this estimate of foregone tax revenue is not included in the taxpayer cost of family breakdown and decreasing marriage rates. This estimate is, nonetheless, reported here to illustrate the potential magnitude of the foregone tax revenue and the importance of empirical research on this issue.

**The increasing financial discouragement to work facing second earners is significant given the increasing proportion of expenditure going to partnered families.**

## 6. Recommendations

**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 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. Family breakdown and decreasing marriage rates should be considered in research on social policy issues, such as poverty among families with children. If researchers continue to fail to consider and debate these issues then we would have little chance of understanding some of the most important issues facing New Zealand's most vulnerable families.

This empirical research on the family could include a review of the interaction of tax-benefit programmes and incentives for marriage and work, and the consequent effect of these incentives on decisions for partnering or misreporting partnership status. This review could also include an assessment of the use of tax-transfer programmes to support married families in overseas jurisdictions.

**Family breakdown and decreasing marriage rates should be considered in research on social policy issues, such as poverty among families with children.**

A number of countries have introduced tax-transfer programmes to support marriage and single income families. These programmes include income splitting through the personal income tax scale and the use of family tax credits (Nolan and Fairbrother, 2005; Nolan, 2006). However, while not pre-judging any review, it is likely that tradeoffs involved in these programmes' design would mean that they are unlikely to be relatively effective at lowering the costs of family breakdown and decreasing marriage rates (Nolan, 2005).

**A number of countries have introduced tax-transfer programmes to support marriage and single income families.**

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# Appendix A

## Kiwis' views on what makes a marriage work

In 2007 UMR Research asked questions on what makes a marriage work in a telephone survey of a nationally representative sample of New Zealanders 18 years of age and over. The key findings of this survey are contained below:

**Faithfulness was seen as the most important factor in making a successful marriage.**

**4 percent of New Zealanders said that agreement on politics is a very important factor.**

- faithfulness was seen as the most important factor in making a successful marriage, with 92 percent of New Zealanders saying that it was very important, 6 percent rather important, and one percent not very important. These opinions were fairly even across all demographic variables
- a happy sexual relationship was seen as being very important by two thirds (67 percent) of people interviewed, with 29 percent saying it is rather important. Pacifica respondents were more likely this factor was very important (82 percent) compared to Maori (71 percent) and non-Maori (66 percent). Younger respondents were also more likely to say this factor was very important compared to older respondents
- sharing household chores was seen as very important for making a successful marriage by 62 percent of respondents. This factor was seen as rather important by 32 percent, and students were more likely to cite this as very important (72 percent) than homemakers (58 percent)
- just over half (55 percent) of the respondents cited good housing as a very important factor for making a successful marriage. Pacifica respondents (72 percent) and those aged 60 plus (66 percent) were relatively likely to rate good housing as very important
- an adequate income was seen by 48 percent of New Zealanders as very important for making a successful marriage, with 43 percent saying this is rather important. Women were more likely to note the importance of income (51 percent) compared to men (44 percent). Older respondents were also more likely to say an adequate income is very important
- 46 percent of New Zealanders said that children were a very important factor for building a successful marriage, with 28 percent saying children were rather important and 24 percent saying they were not very important. Respondents who had dependent children under the age of 18 were more likely to declare children as very important (50 percent) compared to respondents who did not have dependent children under 18 years (43 percent)
- 40 percent of respondents said that shared tastes and interests were very important for building a successful marriage, however 49 percent said this is only rather important. One fifth (21 percent) of New Zealanders noted that shared religious beliefs were very important, while 45 percent said that this is not very important. Women (23 percent) were slightly more likely to think shared religious beliefs were very important than men (18 percent).
- 4 percent of New Zealanders said that agreement on politics is a very important factor for making a successful marriage. Three quarters (72 percent) said that this is not very important. Respondents employed as sales and service workers (87 percent), those earning more than \$70,000 were (86 percent) and males (80 percent) were much more likely to say this is not very important.



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Family First NZ is a charitable organisation and was formed in 2006. Its purposes and aims are:

- To promote and advance research and policy regarding family and marriage
- To participate in social analysis and debate surrounding issues relating to and affecting the family
- To produce and publish relevant and stimulating material in newspapers, magazines, and other media relating to issues affecting families
- To be a voice for the family in the media speaking up about issues relating to families that are in the public domain

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