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New Zealand Working For Families programme:
Literature review of evaluation evidence

Martin Evans, Genevieve Knight, and Ivana La Valle

Research Discussion Papers

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For further information contact:

Publications Dept., PSI, 50 Hanson Street, London W1W 6UP

Tel: (020) 7911 7500 Fax: (020) 7911 7501

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MINISTRY OF
SOCIAL DEVELOPMENT
Te Manatū Whakahiato Ora

Literature review of evaluation evidence

Prepared by
Martin Evans, Genevieve Knight, and Ivana La Valle

Prepared for
**Centre for Social Research and Evaluation
Te Pokapū Rangahau Arotake Hapori**

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Disclaimer

The views in this report are the authors' own and do not necessarily reflect those of the Ministry of Social Development.

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Glossary of abbreviations

| | |
|--------|--|
| AS | Accommodation Supplement, housing costs assistance available to homeowners, boarders and renters not in Housing New Zealand Corporation houses |
| CCS | Childcare Subsidy |
| CTC | Child Tax Credit, a per-child payment to families that existed prior to in-work payment; an additional payment to low- to middle-income families not receiving other assistance; to be replaced by in-work payment in 2006 |
| EMTR | Effective marginal tax rate |
| FAM | Family support, financial assistance paid by MSD and IRD to qualifying families with dependent children; currently consists of FS, CTC, FTC, and PTC |
| FACS | Families and Children Surveys, United Kingdom |
| FIA | Family Income Assistance |
| FS | Family Support, a per-child payment available to families whether in or out of work, to help with the costs of dependent children |
| FTC | Family Tax Credit, a payment per annum to families not in receipt of benefits to guarantee a minimum in-work income |
| HNZC | Housing New Zealand Corporation |
| IRD | Inland Revenue Department, New Zealand |
| IWP | In-Work Payment, a per-family payment made to the principal carer to help parents move into and stay in paid work |
| MSD | Ministry of Social Development, New Zealand |
| OSCAR | Out-of-School Care and Recreation subsidy, a childcare subsidy with payments to providers for school-age children up to 13-years-old |
| PTC | Parental Tax Credit, financial assistance for the first 56 days after a child is born where paid parental leave is not taken |
| PRILIF | Programme of Research Into Low-income Families, United Kingdom series of surveys that preceded FACS |
| UB | Unemployment Benefit: a benefit paid to adults who are able to work but unable to find employment |
| WFF | Working for Families, programme of changes to accommodation, out-of-work and in-work assistance introduced over the period 2004–2008, announced in Budget 27 May 2004 |

1 Introduction to the purpose of this study

Last year the Ministry of Social Development (MSD) commissioned research to review international evaluation methodology and literature to help in the preparation of evaluation of the Working for Families (WFF) policy, introduced in 2004 to assist working low- and middle-income families in New Zealand. The results of the study are in two parts: *Working for Families: Methodological considerations in evaluating the programme* and *Working for Families: Literature review of evaluation evidence*.

This first part, the literature review, reviews international literature, comparing the economic impact of WFF with those of welfare reforms elsewhere. It introduces the central issues within the New Zealand and WFF context using a combination of cross-national comparisons and an intensive country or programme literature review. This provides a good balance between depth and coverage and enables a consistent method of review.

Research findings are aimed at government social researchers and will enable evaluation to be carried out on WFF based on a sound understanding of current international evidence and benchmarking.

For more detailed information on the WFF programme and the rationale behind these studies, refer to *Working for Families: Methodological considerations in evaluating the programme*.

1.1 Overview of the literature review

The review addresses evaluation evidence in each of the five key areas: take-up of assistance; making work pay; poverty, social assistance and standards of living; childcare subsidies; and child outcomes.

Selection criteria and issues of interest were agreed with MSD and relate to the evaluation issues for WFF. The key issue is how evaluations are selected. Some countries were excluded because analogous programmes did not exist or relevant evaluations not carried out, or because evaluations were not sufficiently formalised or documented. Similar considerations reduced the number of documents available for review in some other countries. Because of this, the method of selection for literature is outlined separately for each topic.

1.1.1 Take-up of assistance

Take-up of assistance is an issue where there is a desire to ensure that people take advantage of the assistance available to them from the WFF package. The main theoretical explanations of take-up and their relationship to institutional approaches to income transfers are outlined. The research first draws, in part, from recent comparative overviews of take-up of transfers, which provide a clear basis to select literature across countries.

An intensive literature review covers the United Kingdom (UK) and the United States of America (USA), focusing on programmes for working age people. These countries are the only countries with a large national literature on take-up of assistance.

1.1.2 Employment and making work pay

Two kinds of literature are examined here: a review of the theoretical literature, mostly labour economics, and a review across countries of how far the evidence fits with such theoretical predictions. Evidence was sought mostly from the large body of US literature; UK literature that has followed and interacted with the US literature; and the smaller group of cross-national papers from the OECD and from studies of European programmes by the European Commission.

The USA, UK and Canada provide most of the review evidence for employment effects for families with children. The policies implemented in these countries have rarely been “pure” in-work supplementation but have been accompanied by active labour market programmes of varying types and contemporary changes to eligibility for out-of-work benefits for the same general target group (families with children). Where possible, the focus is split between sole parents and couple parents.

1.1.3 Poverty

The approach here is to assess how far poverty and living standards have changed in other countries as a result of changes in social assistance, in-work benefits and housing allowances. However, the cumulative effects of the WFF package are not matched by recent policy changes elsewhere and elements of the WFF package will therefore be taken separately.

The intensive review of literature on poverty and living standard outcomes uses the same set of programmes in the USA, UK and Canada as is used in the previous section on employment and making work pay. This allows a more consistent discussion of the link between outcomes for employment and incomes, and hence a more consistent analysis of the evidence on poverty and hardship.

1.1.4 Childcare and child outcomes

The review of childcare and child outcomes is much broader and covers a wider range of issues than the reviews on take-up, making work pay and poverty. Here the review was guided largely by the need for breadth rather than depth of coverage, to meet the request for information on a wide range of issues that might be of relevance to the evaluation of WFF.

Two contrasting groups of countries were chosen for the reviews of childcare and child outcomes: three English-speaking countries (in addition to New Zealand) and four Nordic countries. Australia, the UK and the US were chosen because they share many characteristics of the New Zealand childcare market and have recently placed increasing emphasis on monitoring key child outcomes. While these countries are different from New Zealand in some respects, similarities in the development of childcare services and policies to improve child outcomes mean they have had to confront some similar challenges – trying to increase both childcare use and parental employment, and in improving some key child outcomes. Denmark, Finland, Norway and Sweden were included because childcare services there have developed very differently, with what are considered to be better outcomes for children.

2 Participation and take-up

2.1 Introduction

Some potential problems of terminology and language regarding participation and take-up became apparent in this review. We clarify these below for subsequent discussion of take-up of income maintenance programmes.

This term “take-up” itself is used in three ways in the literature. At its simplest, “take-up” refers to a gross measure of *any participation* in a programme. This can include claims made or approaches to the programme without evidence of entitlement or enrolment. In a more applied sense, “take-up” refers to effective enrolment; that is, those who *claim and receive* the programme. This may be called *effective participation*, and it is very common to see reports of the number and composition of programme recipients reported in administrative data on such programmes. These two meanings describe participation primarily, and are used across a wider range of programmes; for instance, take-up of primary health care services, use of leisure and sports facilities and participation in voluntary programmes of a variety of sorts. “Take-up” may also be expressed as a rate of participation, where numbers receiving the programme are expressed as a percentage of an underlying population with a set of general characteristics as appropriate. Such figures can show the coverage of transfers on poor or working poor populations, for instance.

The third use of the term is a measurement of how many entitled people claim and receive the programme, and can be thought of as a measure of *evaluative participation*. Measuring rates of take-up can assess how well the programme is reaching the intended target group and thus can identify those who do not participate but are entitled to do so as well as those who claim and receive. It is important to emphasise the term “entitlement” at this point. Measures of programme take-up explicitly attempt to measure how far the “entitled” population is covered by the transfer in question. This means that the rules of entitlement have to be sufficiently certain to be captured through data on individuals. For example, if programme x is available only to those individuals with income below level y then take-up is the rate at which x covers all of population with incomes less than y and not just those who have claimed and receive x. If we compare this to a more discretionary scheme, where programme z covers the needs of only those with incomes below y who additionally fit some discretionary principle that cannot be identified consistently in the wider population because it relies on administrative discretion that can award transfers or not to people with the same circumstances, then there is no certainty about calculating the size of the target population because of the discretionary rule. This means it is possible to calculate coverage but not to assess how far entitlement is taken up.

The evaluative notion of “take-up” is the main focus of a large body of literature on the performance of income maintenance programmes and is the primary concern of this review. This meaning of take-up is very commonly expressed as a rate – the number receiving the programme divided by the number entitled to do so (see Bryson et al.2006).

Problems of terminology remain within this third meaning, because the terms “take-up” and “non-take-up” are used but are mirror images of the same aggregate pattern of behaviour. “Non-take-up” concentrates on individuals who are entitled to but do not receive the programme, whereas “take-up” describes the overall problem. The

literature generally prefers the term “take-up”, and this term will be used here to show the extent to which the programme reaches its target group. This means that “non-take-up” is directly inferred as the corollary.

Why is take-up important? Currie clarifies two of the main issues facing policy makers, *... targeting will always be imperfect. Some of those who take up benefits will not ‘deserve’ them, and some of those who are eligible for benefits will not take them up. If take up by eligible individuals is low, the programme may fail to reach its main goal If take up by ineligibles is too high, then government revenues will be diverted from other productive uses.* (2004:4)

Atkinson differentiates between concerns about “effectiveness” of transfer programmes and concerns about the outcomes of non-take-up “as a cause of low incomes” (Atkinson 1989:191). Both concerns about effectiveness and income outcomes are relevant to MSD, evaluators and to policy makers in New Zealand, as the WFF package is designed to:

- ensure people who work are better off as a result of their effort
- ensure families have incomes sufficient to provide their children with a decent standard of living
- ensure people receive their full entitlements
- simplify the benefit and tax based family income assistance structure.¹

Making sure that take-up is optimised can be a key part of ensuring incomes are sufficient and work is rewarded.

2.1.1 WFF and take-up terminology

How do these and other terminology problems impact on the WFF package of income transfers in New Zealand? WFF is put forward as an “integrated package” of reform across the following programmes:

- means-tested housing allowances (Accommodation Supplement)
- means-tested support for families with children – both those in work and out of work (Family Support, In-Work Payment and Child Tax Credit and Parental Tax Credit)
- means-tested childcare subsidy (improvements to Childcare Subsidy and Out-of-School Care and Recreation subsidy)
- categorical means-tested Invalid’s Benefit – where changes to work rules will encourage employment.

The non-trivial problem in describing the literature alongside these programmes stems from the names given to the programmes. All literature from the UK (the largest individual source country and the most readily comparable to WFF interventions) and most from the USA use the term “benefits” to describe the range of income maintenance programmes available – housing allowances, social assistance, and in-work tax credits for instance.² However, the New Zealand Government largely avoids “benefit” language and has a range of differently named programmes across both MSD and Inland Revenue Department (IRD) that encompass cash programmes of very different kinds as well as tax credits.

¹ Social Development and Employment Minister Steve Maharey in *A new approach to social assistance* – media release. <http://www.msd.govt.nz/media-information/press-releases/2004/pr-2004-05-27-3.html>

² It may be of interest that the distinction in terminology within Britain between contributory “benefits” and means-tested and other forms of social assistance, was addressed in the 1960s as part of a wider concern to de-stigmatise social assistance – in particular for pensioners. If removal of stigma and an improved equity in perception of entitlement across transfers is an aim then differences in terminology and treatment could be one area for further consideration.

MSD administers:

- benefits – the term “benefit” is used solely for MSD-generated core benefits such as the Unemployment Benefit, Domestic Purposes Benefit, Sickness Benefit, Emergency Benefit, Widow’s Benefit, and Invalids’ Benefit.
- supplements – these include Accommodation Supplement, Special Benefit
- subsidy – this includes the Childcare Subsidy.

IRD administers:

- tax credits – such as Parental Tax Credit, Family Tax Credit, Child Tax Credit, In-Work Payment.

The term “benefits” can thus confuse a New Zealand reader if used across the entire WFF package as it might be in the British sense, but a generic term is needed nevertheless. We employ the term “*transfers*”; however, in quotations from the literature the term “benefits” will appear regularly and should not be interpreted narrowly.

Different forms of income maintenance have different rules and different cultures of administration and clientele. These give rise to differing words for elements of participation and take-up. As the imaginary example discussed in section 2.1 explains, “entitlement” is a key concept. The term “eligibility” is more ambiguous as eligible people may claim and be considered but not determined as entitled for reasons that are not to do with their circumstances alone. Budget constraints may mean that eligible people are not entitled, for instance. In the USA many eligible people are turned away from the Temporary Assistance for Needy Families (TANF) social assistance programme because there is no underlying legal entitlement to programmes even if they are eligible to apply. Measuring take-up for such programmes can look at participation – who comes forward and who receives the programme – and can describe this in terms of coverage of an inexactly drawn target population. But because there are no consistently applied rules it is not usually possible to accurately estimate a wider population of potentially entitled people and this means a take-up rate cannot be precisely measured.

WFF mostly comprises of a set of regular transfer programmes in which a person can participate and obtain additional income if their circumstances fit those described in regulations and their income falls within the statutory parameters. We use the term “*entitlement*” rather than eligibility across all of these WFF transfers.

The entitlement approach is crucial to take-up estimation and underpins the methodologies for establishing take-up rates as described in the accompanying methodology paper (Bryson et al. 2006). The basis of the measurement of take-up is that entitlement can be identified, usually through secondary analysis of household survey data that can capture the circumstances of the family (whether they have children and work sufficient hours, for instance) and the recipient population, expressed as a percentage of the entitled population.

Another term with problematic associations is “claimant”, which in New Zealand is deemed to refer only to clients of the Accident Compensation Corporation (ACC). The terms “applicant” or “client” are preferred in New Zealand, depending upon the context. In this instance, the widespread British use of the term “claimant” is inexact and can be misleading as it can refer to both those making a claim and to those who receive transfers. We use the term “*recipient*” to describe those who receive transfers. However, the process of claiming a benefit is not just one of applying, and

thus the term “applicant” (the term used most often in New Zealand) is not always sufficient to capture the whole process. Many applicants may ask for forms but do not fill them in, for instance. This distinction is crucial because the literature on take-up that most directly addresses concerns about access to WFF has moved to look at take-up as the outcome of a mediated *claim process*. This includes the decision to apply and to submit an application together with subsequent actions of determination that together add up to “making a claim”. For this reason we use the term “*claim*” to refer to an application for a transfer that is both submitted and considered.

2.1.2 Take-up of the WFF transfer package

The issue of take-up for the WFF reform is focused primarily on the issue of claiming entitlement to *means-tested income transfer programmes* of different kinds – both individually and as a package of entitlements for those who are entitled to more than one element.

There are several conceptual difficulties in establishing how take-up and non-take-up can be established and measured.

First, there is the ability for someone to take up one or more parts of the WFF means-tested transfer package, without necessarily claiming their full entitlement across the package. For example, this may be true of Childcare Subsidy, independent of underlying entitlement to Family Support (FS) and In-Work Payment (IWP).

Second, the payment of some elements of WFF through the tax system with year-end reconciliation means that entitlement at any point in time is more difficult to establish as changes in circumstances and reconciliation are not contemporaneous. The experience of Australia and the UK in this respect suggests that public support is reduced for programmes that endemically overpay and produce perceived indebtedness (Whiteford et al. 2003, Howard 2004, and Griggs et al. 2005). Such public perception can thus affect take-up in ways that are discussed further below, as fear of debt from overpayment is consistently found to be associated with non-take-up (NAO 2002:55).

Third, there are a variety of perceptions of take-up that can be followed and related directly to its measurement, and which come from the institutional implementation of the programme(s). These are covered below.

The main methodological questions surrounding the data needs and identification and measurement of take-up, are covered in the methodological report (Bryson et al. 2006).

2.1.2.1 Structure of the take-up review

MSD has two primary concerns with regard to WFF: *awareness of assistance* and *ease of access*. Both these concerns are well founded and well covered in the literature. But while awareness of transfer programmes is a factor in applying for transfers, it is often not sufficient to either apply for a transfer or to subsequently ensure that any application becomes a claim for that transfer. Indeed, findings in the early 1970s in the UK that some people did not make a claim, even after they had been identified as entitled and given information, led to a more robust and comprehensive analysis of take-up. The problem of informed non-take-up means that the issue of awareness has to be taken into account in defining and exploring the non-take-up of transfer programmes. It also means that improving knowledge and awareness of programmes can potentially improve take-up.

Ease of access is also important for several reasons. First, it affects claim behaviour. Most approaches to studying take-up associate the process of making a claim with costs and trade-offs at the individual level; others cite institutional factors as important. Problems of access can be both individual and institutional. But institutional ease of access is not a commonly agreed aim of policy. Indeed, some argue that social assistance and other poverty-related transfers should not be easy to access, in order to improve targeting, so that making a claim “arises from a self-selection process in which only the most deserving people are thought to apply, and there is no incentive for the non-poor to pretend to be poor...” (Creedy 2002:151). Easing institutional ease of access also points to a variety of initiatives, approaches and programmes that can assist claims to be made – through outreach, telephone call centre and web-based service provision, for instance.

This part of the review puts the issues of awareness and ease of access into the wider theoretical and empirical approaches to take-up. Three main sections each address a central question:

1. How is take-up conceptualised?
2. Who fails to take up and why?
3. How can take-up be maximised?

Splitting the discussion in this way produces “overlaps” but also builds as we proceed, so lessons from the theoretical conceptualisation and empirical measurement of take-up can be brought together in a concluding overview that refocuses on core WFF concerns.

We will not cover issues that relate to underlying problems of measurement of take-up here. The accurate identification of entitlement in survey and administrative data and the ability to estimate take-up rates accurately in the face of measurement error is a key methodological concern and covered in the methodology paper (Bryson et al. 2006). However, we sometimes have to mention measurement error in order to contextualise findings on the explanations of take-up and the characteristics of those who do not.

2.2 Conceptualisation of take-up

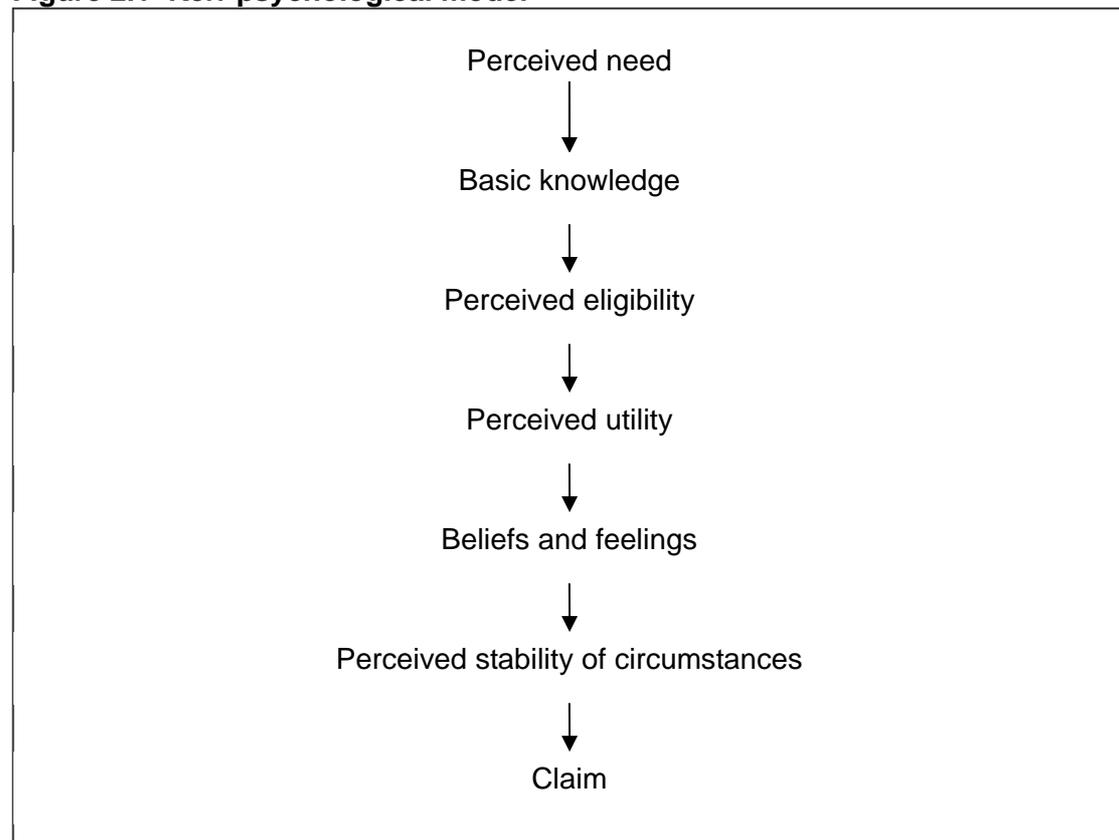
The history of studies of take-up of means-tested transfers has grown largely from early studies in the UK and the USA that applied to out-of-work social assistance in the 1960s and expanded to in-work transfers and housing allowances in the 1970s and subsequently. Before the 1960s, the assumption that a national system of means-tested social assistance provided an effective minimum income guarantee held sway. Early studies of take-up emphasised this was not the case, particularly for pensioners in the UK, and that poverty was still prevalent despite the welfare state. Various studies throughout the 1970s used a range of approaches linked to improving uptake: “A general view emerged that non-take-up could be attributed to three main factors: ignorance, stigma and administrative complexity..., and that these three main factors interacted” (Corden 1999:142).

Local studies in the 1970s in the UK also focused on a more active research remit, where surveys and campaigns, often associated with the burgeoning “welfare rights” movement, would provide information and advocacy in order to improve take-up. However, these studies increasingly found that information and awareness often did not lead to a claim. Problems in take-up could be tempered but not solved purely by providing information, advice and advocacy. The approach of these many local and other empirical studies was to measure take-up rather than try to explain it. This led

to a position in British literature in the late 1970s where there was no clear explanatory framework for take-up. Retrospectively this period has been termed a “conceptual clutter” (Craig 1991). Clearer explanatory research evidence on take-up began to appear when theoretical models were put forward by psychologists and economists in the early 1980s. However, this theoretical modelling placed the main emphasis on the individual making (or not making) the claim for transfers.

2.2.1 Psychological models

Figure 2.1 Kerr psychological model



Source: Kerr 1982, 1983

Kerr produced a model for understanding take-up of transfers (British social assistance for the elderly) based on a sequential decision-making process in six stages (1982, 1983). Each stage was a necessary pre-condition to the next, which cumulatively built to the point where an application for social assistance was made (the Kerr model did not distinguish between claim and application). This model, based on “thresholds”, summarised in figure 2.1, gave rise to a long list of UK research that explored avenues opened up by the Kerr approach. Kerr’s main influence was a body of research that clarified decision making and its effects, but the Kerr idea of strict sequential thresholds has never held up in reality. Many of the supposed thresholds are actually aspects in the decision to claim that are held contemporaneously, and some beliefs and attitudes can counterbalance others. Also, the model was found to be too individual and ignored the important effect of peers (family and household members in the main) and the administrative process.

Ritchie and Mathews (1982) put forward an alternative model that looked at up-take of housing allowances. They used a series of trade-offs between internal and external influences, such as the influence of peers, interventions to encourage claims and perceptions of eligibility. The act of claiming involved a reconciliation of such

trade-offs. However, they found that, in addition to the trade-offs, an individual's underlying perception of need and of their eligibility were crucial to making a claim.

The literature that followed focused on the process of making a claim. This was an individual process of decision making mainly, but it can be mediated by peers and members of the household and by institutional factors. In the end, the theoretical models themselves have contributed mainly to questionnaire design for qualitative studies that have attempted to follow and explain the process of making or not making a claim for an income transfer. Most of this literature focused on elderly claimants of social assistance, although in the early 1980s a number of studies looked at claims for in-work transfers for families with children (called Family Income Supplement in the UK at the time) and later at the combination of work incentives and claiming in-work transfers. These studies appear most relevant to concerns for take-up of WFF and, in particular, In-Work Payment.

In the US there has also been a limited use of small-scale qualitative work to explore claiming behaviour, but most work has focused on the food stamp programme (Bartlett et al. 1992 and McConnell and Ponza 1999). McConnell and Ponza, looked across elderly and working-poor populations and found factors relevant to the failure to take-up included information, perceived lack of need (particularly for the elderly), low levels of transfers, programme administration and hassle, and "stigma or other psychological reasons" (1999:x). This list, from their overview of US literature and experience, maps very well to the British research findings and adds extra weight to the generalisation of the following explanatory factors that flow from the British research literature.

2.2.2 Explanatory factors for take-up: the claiming process

What are the main explanatory factors identified in the literature that focus on the claim process for transfers for people of working age?

Ignorance and awareness: It is worth first restating that knowledge or awareness of a programme is a necessary but not sufficient factor for taking the programme up. Much early research in the UK (summarised in Corden 1983 and Craig 1991) looked at advocacy and information supply and found that "providing advice and information often still did not trigger applications from people who said that the main reason for not claiming had been lack of knowledge" (Corden 1999:142).

Perceptions of eligibility often proved to be the most prevalent barrier to making a claim. Such perceptions are partly based in information. The Corden study (1983) showed that newspaper and television advertising sometimes aroused awareness of the programme but information given was not often sufficient to form a perception of eligibility. Information from formal sources, state and voluntary sector organisations, solicitors and advice centres had a more direct influence on making a claim, but the most important source of information was often informal, through friends, family or work colleagues. Publicity on its own was found to often result in false perceptions of potential entitlement to the programme, as publicity often used a "model family" with stereotypically simple needs and income profiles. These had a tendency to be generalised into rules (Craig 1991).

Individuals who perceived themselves as being in need were also more likely to claim, and these feelings of need were often a trade-off between information about eligibility and entitlement. A strong conviction about potential entitlement often overcame weak perceptions of being in need (ibid).

Understanding/complexity: Rules of entitlement are often complicated and can be difficult to understand. Early research tended to over-emphasise how complexity remained an issue even when knowledge of the programme existed (for instance, Taylor-Gooby 1976, Deacon and Bradshaw 1983). More recent UK studies confirmed that the more complicated the programme (or set of programmes) the more difficult the process of obtaining a basic knowledge and understanding of potential entitlement (Costigan et al. 1999).

In addition there is the complexity associated with multiple entitlements and agencies. A consistent finding across the past 20 years is that UK applicants rarely understand that one piece of the “system” (ie the combination of local and central state bureaucracies and their agencies) is not in contact with others, and thus a claim or information given to one is not shared by all (most recently found in the review by the National Audit Office 2002).

Combining take-up with entering work: There is the additional difficulty of understanding the potential “outcomes” from in-work transfers associated with a move into employment. Policy is designed to overcome economists’ concerns for work incentives, reducing replacement rates and making work pay. However, qualitative research into combined work entry and take-up show that perceptions of reservation wages³ are linked more to household needs than labour market rewards. To be clearly understood, the net impact of potential transfers on family income and therefore on the actual and perceived risk of moving into work and changing income sources is crucial (McLaughlin et al. 1989, Ford et al. 1995). However, perceived hassle with changing entitlement and the disruption to family budgets caused by delays in in-work programme payment and the inherent delays in wage payment are often also crucial to whether take-up of in-work benefits is part of a larger decision to return to work (Ford et al. 1995).

Stigma: The issue of stigma as a reason for non-take-up arises throughout a wide cross-section of the literature. There is a wide range of underlying theoretical positions regarding stigma. One is that receiving help from the state is contrary to being seen as independent and autonomous in a market driven society (Deacon and Bradshaw 1983). There is also the cultural legacy of earlier programmes; for instance, the Poor Law on the elderly population who remember its operation in pre-1940s Britain. However, there is no clear cohort effect in British patterns of take-up that would support such a specific programme effect (Dornan 2003).⁴ There is evidence from the USA that more recent changes to administrative practices to make public assistance more stigmatising help to deter claims (Evans 2001 and see also discussion below). US sociologists have stressed the “shame, embarrassment and social disapproval afflicting a claimant whose participation in a welfare program is *observed* by others or becomes known to others (ie family, friends, neighbours, employers, etc)” (Yaniv 1997:438). A German study of social assistance also linked questions about social attitudes and social participation to take-up and found that those who were not part of a social group, and thus open to social stigma, were more likely to take up assistance (Kayser and Frick 2000). Publicly identifiable actions associated with claiming food stamps in the USA have been criticised for being blatantly stigmatising as the special vouchers must be used in a public place to buy goods. “Some markets make the program even more salient by having specially marked check-out lines for those with food stamps” (Pettigrew 1980:222). Similar

³ The reservation wage is the income a person will have in their mind when seeking work. It is the figure that is needed to ensure their family is provided for, and the job-seeker will look for a wage that matches these expectations.

⁴ This finding may be overtaken by more recent emerging evidence following large scale interventions to improve take-up of pension credit in the United Kingdom.

criticisms of visible stigma have been made for children receiving free school meals in the UK (Storey and Chamberlain 2001).

The Corden study of in-work programme found that attitudes towards the potentially stigmatising receipt of state help were largely overcome when it was linked to earnings and being in work – recipients tended to see themselves as belonging to the “respectable poor” (Corden 1983). However, this positive aspect of in-work benefits is a double-edged sword, for two reasons. First, Craig points out that being in work appears to act as a barrier to grasping eligibility (1991:549). Second, the lack of stigma for in-work transfers may be relative to the high stigma of receiving out-of-work support previously. This other main source of stigma is the actual or perceived treatment of applicants and recipients by programme administrators. A perception of widespread fraud by staff can impact on applications for benefit, especially where the outcome is uncertain (Howe 1985). Many local studies that also suggest this finding are reviewed by Dornan (2003). Recipients are less likely to report stigma than non-recipients, and the perceived stigma of claiming is reported as worse than any actually associated with making the claim (Dornan 2003).

Another type of stigma comes from just having to relate to bureaucracy – whether deliberately stigmatizing or not. Administration that requires personal and financial details can be intrusive and, added to delays in delivery, can alter the balance of the perceived costs of making a claim. Valid rejections of a claim can be humiliating (Craig 1991). Perceptions of current entitlement are often linked to previous experience of a claim. If a previous claim has been refused there is an apparent reduced likelihood to claim on the basis that it has been tried before and failed (Noble et al.1992), irrespective of how well or badly the system treated the recipient.

Trigger events: There is a common finding across the literature that life events can trigger claims (even where potential entitlement preceded the event itself). Many of these events are risk events, usually associated with a claim for an income transfer, such as unemployment, sickness, retirement and survivorship. However, there are other events such as personal crisis or periods of financial stress that can precipitate the claim process (see Dornan 2003 for an overview). The actions of others can also trigger entitlement, such as peers receiving assistance or contact with an adviser or advocate who can assist with making a claim. Such trigger events can overcome many of the normal problems of perception, stigma and ignorance that prevent take-up.

2.2.3 Economic approaches

The issue of non-take-up of an entitlement is a fundamental challenge to the economic orthodoxy that individuals optimise their resources. Economists have clarified analysis of take-up using secondary analysis of survey and administrative data and econometric techniques that can identify multivariate associations. However, most of the economic literature does not address irrationality in take-up behaviour; instead it treats non-take-up as a rational behaviour based on a cost-benefit trade-off. This means that some of the terms used by non-economists, such as stigma, are interpreted differently in this form of analysis from a sociological or psychological perspective and represented as “costs”. Economists have also looked at take-up in a wider selection of programmes – social insurance transfers, other non means-tested transfers (see Currie 2004 for an overview) and of non-transfer programmes such as employment programmes (see, for instance Heckman and Smith 2004). We limit discussion in this section to means-tested programmes unless evidence on other programmes suggests it is also applicable.

Corden notes,

The economic approaches are probably most useful when the statistical findings are considered alongside results from more direct behavioural or attitudinal investigation, pointing to issues and areas where specially designed surveys or small-scale investigations might be most fruitful. (1999:145)

In this section we use the headlines from the main economic approaches to, and explanations of, take-up. This allows us to put greater weight on the empirical evidence gained from multivariate econometric analysis in the discussion of characteristics and explanations.

In the earliest studies of take-up, based on experimental negative income tax programme data from Seattle and Denver, Ashenfelter (1983) summarised such costs as follows: "... the incidence of information, reporting or other unobserved non-pecuniary costs are a significant deterrent to actual programme participation" (p517). The standard way to estimate non-pecuniary costs was to assign a hypothetical value to them because they are almost always *unobserved* directly. (This is one of the main differences between econometric theoretical discussions of take-up and the specific studies of take-up that use a psychological decision-making approach as discussed above). This means Ashenfelter was able to estimate a family's "distaste" for programme participation alongside their incentives, to alter labour market behaviour to qualify for the programme in a discrete choice model. He found no significant role for "welfare stigma or other non-pecuniary program participation costs" (Ashenfelter 1983:524).

Moffitt conflated the potentially numerous reasons for "disutility arising from program participation" into a measurable value that he called "stigma", to use when such disutility prevented participation (1983:1023). He admits that ignorance or application and compliance costs may additionally explain non-participation but argues that these are "almost impossible to distinguish from stigma" (Moffitt 1983). Moffitt's approach to combine these types of cost into a single measure of stigma makes intuitive sense in applied terms. For example, a long and complex application form for a transfer may carry large transaction costs and be stigmatising to complete. His approach contrasts starkly to that of the psychologists who try to construct decision-making measures that are theoretically distinct and that interact. In reality, the differences spring largely from data used for analysis. Economists have traditionally used large survey data sets not specifically designed to capture data on attitudes and the claim process, whereas much of the previous literature in section 2.2.2 was based on small-scale qualitative studies of take-up itself. The combination of secondary analysis of survey data and good specification of econometric models gives rise to the economic literature's key strengths.

Moffitt's key insights were that stigma arose from the act of receiving welfare and did not vary with the amount of welfare received, and that the probability of take-up varied with the size of potential entitlement. This distinction, between a flat cost arising from the participation and a variable cost from the size of the entitlement when deciding to participate, has since been consistently and empirically validated across programmes and countries. For our purposes, the key finding is that take-up is lower where potential entitlement is lower (for instance, with higher earners whose entitlement to in-work tax credits is low) because potential entitlement is such a powerful predictor of take-up. Why? It is partly because households tend to seek out assistance at a point where their income is particularly low – as found by Ashenfelter (1983). However it also reflects the balance between the costs and benefits of participation. Higher income groups with smaller potential entitlements are less likely to take up assistance because they do not consider it worth it.

Moffitt's other lasting legacy is the underlying tripartite distinction he brought together in his single concept of "stigma": *information costs* – the availability of information and how difficult and prevalent this is; *participation costs* – the time and effort required to fill in forms, seek out supporting evidence and deal with bureaucracy; and *stigma* – the socio-psychological costs to reputation and self-worth from being seen to receive the transfer. It is interesting to note that these fit quite nicely alongside the main headings of the body of research discussed above. Despite a huge gulf in approach and methodology there is a far narrower gap between the economists and the social psychologists and social policy analysts discussed previously.

Currie (2004) identifies two other emerging theoretical trends in economic approaches to take-up. First, the issue of social networks, which was assumed to explain greater take-up for those who live in areas with higher numbers of those with identical ethnicity (Bertrand, Luttmer and Mullainathan 2000) or immigration cohort (Borjas and Hilton 1996). But the underlying validity of the interpretation that it is *social networks per se* that underlie such differences is not generally accepted. Recent analysis of potential information sharing across such networks found no such finding (Aizer and Currie 2004) and experimental evidence found only small but significant effects for information sharing⁵ (Duflo and Saez 2002).

Currie's second alternative theoretical approach comes from behavioural economics. This approach suggests that standard assumptions about costs do not take into account the way that people's understanding and appreciation of such costs vary over time. This means that the costs of enrolment in a programme precede the benefits and that these immediate or current costs are perceived as a higher relative cost to the subsequent and latter provision of benefits. Such an approach has been examined by comparing automatic with elective participation in employer superannuation schemes. Findings showed that participation improved in automatic schemes but that behaviour was indeed very "sticky", ie it was slow to adjust away from the former behaviour. As Currie points out, the importance of such findings is not that they support the general findings from a more traditional view of costs and discounting, and that the policy implications, "both suggest that reducing the immediate costs associated with enrolment, or adopting default enrolment, would increase participation" (Currie 2004:9). The idea that take-up is a dynamic and time-related behaviour has also been examined by Carr et al. (1984), who show from longitudinal data that turnover and income changes are higher in the eligible population than among recipients. This means that cross-sectional eligibility may under- or over-represent longer-term eligibility and the measurement of take-up may miss some of those entitled for shorter periods.⁶

2.2.3.1 *What factors have economists found to explain non-take-up?*

Economic analysis tends to focus on the three main areas identified by Moffitt (1983): information costs, transaction costs and stigma. The other main area of research has been on measurement error and the data quality required for establishing robust take-up estimation. The issue of data quality and measurement error is covered in the accompanying methodology paper (Bryson et al. 2006).

⁵ within a network in a employer superannuation scheme.

⁶ This also means that income sources for problematic cases such as low-paid self-employed people may create significant problems for both administration and measurement of take-up of means-tested transfers. The self-employed have been historically omitted from United Kingdom official measures of take-up.

Empirical econometric estimation of the effect of information costs requires data on respondents that captures awareness of the programme and, ideally, some measures of different information patterns. It is very rare to find studies of this kind because data of such type is rare. Currie (2003) cites US Department of Agriculture⁷ findings that very high proportions of eligible non-recipients, around 75%, were unaware of their entitlement. Evidence from the review of falls in take-up of food stamps that accompanied US welfare reform in the mid to late 1990s showed that changes to availability of information on food stamps to the AFDC⁸ and TANF populations had significant impact on lowering take-up (US Department of Agriculture 2001). Yelowitz (2000) found that information sharing across a group of associated programmes for which there is multiple entitlement also improved take-up. The most direct evidence comes from experimental research where information given to the treatment group significantly increased take-up compared to the control group (Daponte et al. 1999).

The evidence for the effect of transaction costs on take-up is both clear and plentiful. Daponte et al. (1999) also found that even when information on eligibility was given equally across the eligible group there were still differences in take-up associated with the size of award. Currie and Grogger (2002) found that increased transaction costs (increasing re-certification intervals) had a direct negative effect on take-up; this confirmed findings by Blank and Ruggles (1996).

Welfare reform in the USA has sought to deliberately increase transaction costs by increasing the number and severity of administrative hurdles in claiming social assistance. There is clear evidence that such intentional administrative changes in “welfare reform”⁹ had an impact on reducing take-up. Practices such as diversion (the practice of persuading or preventing claims by meeting an immediate need to refer to other sources of help), increasing work requirements, “hiding” claim forms or delaying their availability for 28 days and of more punitive sanction regimes (see Evans 2001 for discussion) all led to reduced take-up (Moffitt 2003). Currie (2004) points out the important policy question that accompany decisions to increase transaction costs: “Are the non-financial barriers screening out the ‘right’ people? That is, are the various administrative requirements attached to these transfer programmes targeting benefits to the neediest eligibles?” (p15). We discuss associated issues concerning such barriers and the characteristics of those who do not take-up below.

Stigma is more difficult to establish as a reason for non-take-up. Yaniv (1997) provides the most thoughtful examination of stigma from the standpoint of economic psychology. He also integrates more sociological discussion of stigma into his understanding. Instead of seeing stigma as a fixed cost, as most economist analysis does, Yaniv points out that stigma is inevitably linked to other people’s (or those of society as a whole) perceptions of your actions (claiming a benefit) even if this action is not public knowledge. Thus, public or media disapproval or resentment of transfer programmes financed by taxation is not enough in itself to produce stigma unless an individual’s receipt is published. Indeed, the individual claimant/recipient’s perception, or as Cowell puts it “his perception of other people’s perception of his own actions” (cited in Yaniv 1997:437) can matter most. Yaniv shows that fraud and stigma are conceptually identical when modelling take-up. This leads to a finding that changes to work requirements are more likely than changes of the rates of entitlement to change stigma and take-up. Such a wide conceptualisation of stigma has been difficult to test empirically, although there is other indicative evidence. The introduction of electronic

⁷ The main administering department for the food stamp programme.

⁸ AFDC (Aid for Families with Dependent Children) was the main social assistance programme in the US from the 1930s through to 1996.

⁹ It is important to note that the term “welfare reform” in the USA usually relates to changes to out-of-work social assistance payments to families with children, and mainly sole parents.

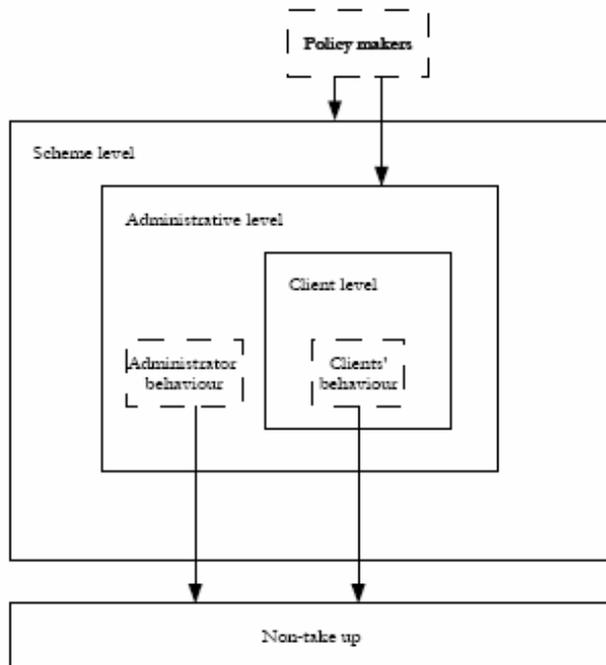
payment cards to replace food-stamp vouchers had no identifiable impact on take-up in the USA (Currie 2004). Likewise the replacement of “benefit payment books” with wage-based payments of family working credit in the UK (a change, in part, introduced to reduce stigma) had no discernable effect on take-up rates. An associated UK finding is that requirements for disclosure of income information were found to reduce participation rates for workmen’s industrial compensation (Bitler et al. 2003).

2.2.4 Institutional and sociological models of take-up

Research during the 1990s (mostly in the UK and Europe) wanted to move the focus away from the individual and more to the social context of the claiming process and, specifically, to include the role of administrative institutions in non-take-up. Buckland and Dawson (1989) put forward a process that moved from the individual *conceptualising* a claim (perhaps influenced by peers or members of their household), to *preparing* the claim and its subsequent *assessment* by the administration. After assessment comes *consideration* by the individual, which may lead to review or appeal if information is seen to be incorrect. Once the claim is established comes *routine claiming* and the different factors that influence take-up that this entails (for instance, matching entitlement to changes in circumstance, and avoiding gaps and overlapping periods of entitlement). While Buckland and Dawson were the first to explicitly include factors from the administration of transfers in a take-up model, their approach was soon overtaken by a clearer multi-level, multi-agency approach put forward by van Oorschot (1991, 1995, 1996 and 1998). It is important to stress that this approach came from a detailed international overview of non-take-up which:

suggested that benefits which showed high levels of non-take-up tended to share some characteristics. There were structural features of benefit design or administration ... which led to greater possibilities of take-up. (Corden 1999:147)

Figure 2.2 van Oorschot multi-level model of take-up



Source: van Oorschot 1995:37

Figure 2.2, van Oorschot's diagrammatic overview of this approach, shows how non-take-up occurs from three interacting levels, each with their own actors: the scheme level, determined by policy makers; the administrative level, where actions by administrators are most important; and the client level, where the actions of claimants and recipients are most important. Policy makers may thus choose schemes that have characteristics associated with take-up problems – complexity, means testing, non-transparent interactions with other transfers and the tax system, for instance. van Oorschot (1991) found non-take-up is higher in schemes that have the following characteristics:

- a high density of rules and guidelines
- complex rules
- vague criteria of entitlement
- a means-test
- aimed at groups in society who are the subject of negative valuation (associated with negative prejudices)
- supplement other sources of income
- that leave the initiative to start the claiming process fully to the applicant.

Corden (1995), reviewing such characteristics for take-up in the UK, added the following:

- a test of disability
- overlap or interaction with other benefits
- challenge to cultural norms or characteristics.

Administration of transfers may embody practices and/or organisational cultures that militate against good take-up. This second level, as originally described by van Oorschot (1991) and reviewed by Corden (1995), can be summarised as having the following characteristics that determine levels of take-up:

- information supply
- service provision
- application forms
- subsequent negotiations
- administrative links between benefits (transfers)
- accuracy in decision making
- policing the system.

Organisational culture is therefore as important as organisational practices, with potential take-up problems where higher priority is given to probity and fraud issues or domination by revenue collection aims, than to entitlement and payment. (There has been much discussion of this in the UK both in the role of local government revenue collection agencies in the delivery of housing benefits and in the recent expansion of Inland Revenue's role in delivering child and in-work tax credits.) Additionally, the administrative practices that frustrate high rates of take-up are potentially broad (see discussion of non-monetary transaction costs above, for instance) such as delays, poor frontline communication with claimants and recipients, or poor referral and delegation of complex and more simple adjudication.¹⁰

¹⁰ Another extreme example the author was told of is a practice in one city in the USA where periodically large portions of all payments would be ceased on the grounds that the administration were certain of some level of inaccuracy and fraud and would cease payments and await recipients to respond before reinstating payment.

Such an interactive multi-level and multi-agency model is difficult to test empirically. The main research that does test empirically is the van Oorschot study of households in the Netherlands. Summarising this research:

He argued that once the basic knowledge and perceived eligibility thresholds had been achieved, the most important part of the process, then the rest of the process represented an overall trade-off between factors that promoted and deterred claiming. 'Triggers', especially in the form of information or a newly perceived need, could be important catalysts to action, either prompting claims or altering the balance in the trade-off. There is an overall emphasis on understanding take-up as a dynamic process, with movement at all three levels of the model, and reactions and interaction of the different actors. (Corden 1999:149)

The client level captures the discussion outlined in the psychological and economic approaches above (see figure 2.2). However, this approach by van Oorschot (1995) led to him dividing non-take-up into three sets of categories:

Primary or secondary non-take-up. Primary non-take-up refers to individuals who do not claim. Secondary non-take-up refers to claims made that are rejected – through misapplication, failure to use discretion or other reasons.

Full versus partial non-take-up. This distinguishes the situation where no transfer is claimed at all, from the situation where a transfer is claimed but full entitlement is not awarded

Permanent versus delayed non-take-up. This distinguishes between cases where time is the main factor determining the act of making a claim – waiting for a job application to come through, for instance – and where non-claiming is not time related but due to other factors.

2.2.5 Overview of conceptual approaches

How do these approaches link back to WFF evaluation information needs, with regard to awareness of and access to transfers, which underlie concerns about take-up?

Each of these alternative approaches has real merits. The first two are more empirically testable, but the third raises crucial questions about the potential influence of the structural design of WFF, its implementation, cross-agency collaboration, and other aspects of its implementation and administration. These influence the way in which applicants, recipients and others view and interact with the programme. Indeed, all three approaches see “awareness of” and “access to” income transfers as an issue not purely posited on the characteristics of applicants, potential applicants, and recipients. This means that the scheme(s) and MSD and IRD operations are “important factors that determine take-up across different groups of people”. This also suggests the answer to another WFF evaluation question: “Do people’s views of delivery agencies influence their decision to access assistance?”

One important lesson from the theoretical literature is that there is apparent agreement that take-up is the result of individual, social and institutional factors. It is therefore worth repeating the point made in the accompanying methodology review, that any proposed research on take-up is best served by not fully committing to a particular disciplinary viewpoint but by conducting research on factors that are known to affect take-up at each of these levels. A wise policy maker would take the psychologists’ appreciation of the decision-making process, the economists’ view of

the three types of costs and the institutional view that administration and scheme design contribute to take-up.

Of course, convincing administrators that systems and procedures that are efficient and effective for assessment and payment may have take-up considerations is difficult. But one obvious applied finding from the literature is that internal administrative “costs” can be exported to the individuals who approach the system – transactions costs and information costs especially. Promoting awareness is, of course, hugely important and is a common reason for low take-up, but providing individuals with information is not enough to ensure uptake of assistance. Wrong information or wrong beliefs are a problem for take-up and misinformation is a problem on both sides – with the need for clarity in adjudication and administration as well as correct information from claimants.

The issue of stigma is important and is mentioned in all three approaches but is difficult to measure and capture accurately.

2.3 Take-up rates, characteristics and explanations

In this section we address several empirical questions about who does and does not take up the types of transfers envisaged in WFF. We focus the discussion first on individual and other across-the-board characteristics and then look at each type of transfer separately and link characteristics to measured take-up levels.

2.3.1 What are the characteristics associated with non-take-up?

A large body of evidence relates to take-up for the elderly (particularly in the UK). Such evidence is put to one side – apart from factors that may directly relate to working age people and children. The evidence cited comes from a selection of the take-up literature that fulfilled two criteria:

- a) it was multivariate analysis so that the interrelationship of factors could be most clearly assessed
- b) it appeared it could be generalised to the needs of WFF.

2.3.1.1 Income level and poverty

In order to understand the question “who does not take up”, it is crucial to align demographic and other non-income characteristics with the near-universal finding across all “take-up” studies that smaller awards are not taken up. In means-tested transfers this necessarily implies that the poorest (that is, those who qualify for the highest amount of payment), have higher propensities to claim. Thus, those who are most at risk of chronic poverty, for instance non-working sole parents and people with disabilities, are often found to have higher take-up rates when compared to those who may have risk of short-term income loss or who have incomes at the margins of poverty/income thresholds for entitlement (frictional¹¹ short-term unemployed and two-earner low-income couples, for instance). Take-up is also likely to be lower with characteristics that are associated with earning capacity, such as educational and skill level.

The best quality empirical evidence is thus found in analyses that separate the independent effects of income and personal and other characteristics in multivariate

¹¹ Frictional unemployment involves people being temporarily between jobs, searching for new ones.

estimation.¹² Dornan (2003), looking across the evidence from UK studies, confirms that “One of the most important aspects illuminated by multiple regression analysis is that those with low eligibility are less likely to take up their entitlement” and cites the studies of Blundell et al. (1988) and Fry and Stark (1987, 1991). To amplify this generalised finding we concentrate on transfers in the UK and USA that look most like WFF-type programmes.

For in-work benefits in the UK over the past 33 years, it has been found that take-home pay is negatively associated with take-up of in-work family support transfers. The evidence is consistent for the earliest version of these transfers, Family Income Supplement (1972–1988) analysed by Dorset and Heady (1991) for the expanded and more generous Family Credit (1988–1997) analysed by Brewer, Suárez and Walker (2003); and most recently for Working Families’ Tax Credit (WFTC, 1997–2004) (Brewer, Suárez and Walker 2003). Similarly, take-up of housing allowances in the UK for low-earning families with children was found to be negatively associated with take-home pay (Dorset and Heady 1991).

The study of take-up for housing allowances for low-income working families is hindered by the absence of such transfers in the USA for comparison and by the fact that British studies currently do not distinguish between those entitled to housing allowances by virtue of entitlement to underlying social assistance and other entitled low-income populations.

When we turn our attention to social assistance for non-employed working-age populations we have greater difficulty in interpreting findings consistently across schemes. This is due to very considerable contextual differences in rules and target populations. It is also not always possible to identify families with children as specific groups of the social assistance population with specifically estimated take-up profiles. US schemes are less problematic because federal social assistance has only been available for families with children. Evidence is consistent from Ashenfelter (1983) in an early study of take-up through to the most recent appraisal of AFDC by Blank (2002), where take-up is linked to size of eligibility. Riphahn (2001) finds clear associations between the size of poverty gaps and take-up of German social assistance and thus confirms that those with higher incomes and smaller poverty gaps are less likely to take up assistance.

Even though the evidence appears clear cut, some care must be taken in extrapolating this point. First, Duclos (1995) has shown that part of the effect may not be just that potential claimants see less utility in claiming small amounts but also that administrative error is more likely to decline for those with smaller entitlements. Second, income does not explain everything. Even where it would appear that characteristics strongly associated with income have no other independent association with take-up, this is not the case. Blundell et al. (1988) find higher education levels are associated with non-take-up of social assistance, as do Brewer, Suárez and Walker (2003) for Family Credit and WFTC. Social renters have been found to take up social assistance more than owner-occupiers (Fry and Stark 1987), while Duclos (1995) and Brewer, Suárez and Walker (2003) also find this for in-work benefits. There has been some discussion of how far peer effects or other social networks may explain these results but no definitive conclusions.

Household/family composition is a factor that also appears to influence take-up independent of income, with single-adult households more likely to take up

¹² The recent OECD overview has an excellent summary of the methods of econometric studies of take-up that will not be repeated here – see text box 1, p23 in Hernanz et al. 2004.

assistance (Fry and Stark 1987; Duclos 1995; Brewer, Suárez and Walker 2003; and Scholz 1994). This may reflect longer-term income deprivation risks in single-adult families captured in cross-sectional take-up estimates.

2.3.1.2 Ethnicity

There is considerable evidence of ethnic differences, irrespective of income or poverty, affecting take-up (in the USA such differences are more often spoken of as racial). However, it is often difficult to establish what the underlying drivers of poor take-up are for ethnic minorities, and it is crucial for interpretation that ethnicity is not a proxy for other linked characteristics such as education level, earnings/income level or length of residence. Aggregate coverage rates show higher levels of receipt of working-age means-tested transfers in minority ethnic populations in both the UK and USA. However, these headline figures are mostly the result of demographic and economic characteristics (higher numbers of families with children, a higher proportion of larger families and households, and lower income) rather than indications of different propensity to take-up.

Another weakness in the literature is in the area of take-up of transfers by indigenous groups. US social assistance programmes for American Indian populations tend to be specific programmes with limited comparability. There are no obvious studies of evaluative take-up by indigenous people in Canada and Australia. There is thus little evidence of direct relevance to concerns about take-up for Māori and Pacific Island communities in New Zealand, beyond what the literature shows can be expected given demographic and income characteristics, and relationships with the government agencies involved.

UK evidence is patchy. Howard et al. (2001) cite take-up problems based on language barriers, especially for those of non-English speaking background, both in terms of understanding and awareness, and on institutional administration. Survey data usually contains too few participants of any particular ethnic group to make take-up probabilities significant, and joining all ethnic populations into a single non-white group averages out a great deal of underlying unobserved differences in language, length of residence, and culture. Overall, evidence from the UK on differences due to ethnicity suggests this is an under-researched area, and the few studies that exist (mainly on pensioners) suggest that differences between ethnic groups are great (Craig et al. 2002).

US evidence is clearer on racial categorisation. Duggan found that, conditional on being poor, Hispanic children are less likely to receive SSI¹³ (Currie 2004:16). However, most findings of higher participation rates by black and Hispanic families are based on coverage of the populations; they are not multivariate and thus usually do not take income and other factors into account. The Moffitt analysis of changes in entry and exit patterns for the post-welfare reform US TANF programme finds a negative association with being black and entering the post-1996 system (2003). Blank and Ruggles (1996) found higher take-up of AFDC and food stamps among eligible women correlated with being black, taking various other individual factors into account. However, interpretation of US findings on black and Hispanic probabilities of take-up have to be considered in the light of high levels of residential segregation (often partially racially based) that mean that the findings on race may in part be based on community, network or other unobserved factors, together with the greater likelihood of persistent periods of poverty for these groups.

¹³ US Federal Supplemental Security Income.

Minority ethnicity can reflect more recent immigration, and Currie summarises the literature on US welfare (AFDC and TANF programmes) as “while immigrants are more likely to be eligible for welfare, they are less likely to take it up, other things being equal” (Currie 2004:16). The likelihood of take-up is then found to rise with “assimilation”¹⁴ in the USA, Canada and Germany (Currie 2004).

2.3.1.3 Area

Differences in policy regime at the state level (and below, at the county level in many states) in the USA make interpretation of area-based differences in take-up difficult for that country. It is much easier to put forward the UK evidence on this point, where there is a uniform comprehensive set of national schemes more akin to New Zealand. Noble et al. (1992) find differences between the cities of Oldham (higher take-up) and Oxford in Family Credit take-up. Brewer, Suárez and Walker (2004) find differences in regions of England over the period of 1994 to 2000. Take-up is much lower in London, for instance, and in other regions where economic growth has been fastest. Rural location seems to negatively affect take-up in Scotland (Bramley et al. 2000).

2.3.2 How does take-up vary by programme type?

2.3.2.1 Social assistance for non-working families with children

Table 2.1 shows the trend in take-up rates for social assistance for non-working families with children from 1990 to 2002 in the UK (the only country to have an official time series of take-up statistics). However, there are several discontinuities that underlie such a time series: a change in underlying survey data employed to calculate rates from 1993/1994 onwards, and a policy change from 1998 means that *unemployed* families on social assistance are no longer counted. Even so, table 2.1 shows medium- to long-term trends in take-up and exemplifies some of the findings from previous discussion about who fails to take up assistance and why. Take-up rates for couples with children have been between 80% and 95% for 13 years using a caseload measure (the headcount of those claiming out of the total number eligible to claim), whereas lone parents have take-up rates of 95% and over. Expenditure take-up rates (a percentage of eligible budget claimed) are higher because lower amounts are unclaimed, with rates consistently between 85% to 95% for couples with children and over 95% for lone parents.

Table 2.1 Take-up of income support by families with children in Britain

| % take-up | 1990 | 1991 | 1992 | 1993– 1994 | 1994– 1995 | 1995– 1996 | 1996– 1997 | 1997– 1998 | 1998– 1999 | 1999– 2000 | 2000– 2001 | 2001– 2002 | 2002– 2003 |
|--------------------|------------|------------|--------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Caseload | | | | | | | | | | | | | |
| Couples | 80– 93 | 83–87 | 83–99 | 85–92 | 87–92 | 92–98 | 88–94 | 87–97 | 87–97 | 88–96 | 89–97 | 85–94 | 83–92 |
| Lone parents | 95– 100 | 95– 100 | 95–100 | 95–97 | 95–98 | 96– 100 | 96–99 | 96– 100 | 95–100 | 95– 100 | 93– 100 | 94– 100 | 93– 100 |
| Expenditure | | | | | | | | | | | | | |
| Couples | 86– 95 | 88–91 | 85–99 | 90–95 | 91–94 | 95–99 | 94–99 | 91–99 | 91–99 | 91–99 | 92–99 | 89–97 | 88–96 |
| Lone parents | 98– 100 | 97– 100 | 96–100 | 97–98 | 97–98 | 98– 100 | 97– 100 | 96– 100 | 97–100 | 96– 100 | 95– 100 | 95– 100 | 95– 100 |

Source: DWP 2004 and previous versions

Studies of take-up of income support (and of supplementary benefits, its pre-1988 equivalent), consistently show that families with children have higher take-up rates

¹⁴ This is the term used by Currie, and refers to length of time of residence primarily. It does not mean “cultural assimilation”.

than families without (ignoring those of pension age who are less likely to claim for other reasons) (Fry and Stark 1993). Multivariate probit estimation of take-up of these social assistance benefits confirm the general findings outlined in the previous section: take-up increases with underlying entitlement and falls with levels and sources of income, and is higher for sole parents (but lower for single people without children). Additional findings of interest and relevance are that take-up is found to be independently higher with the presence of younger children (aged 0–5 years) compared to older children, is higher for those defined as “sick” but lower for those unemployed, but increases with duration of unemployment. Take-up is also lower for both private tenants and owner-occupiers compared to social renters¹⁵ (Fry and Steel 1993, table 7.1).

The USA has a very different experience – its federal social assistance programmes since the 1960s have been claimed primarily by sole parents.¹⁶ There are no “official” estimates of take-up and no comparable time series to match the British profiles. Take-up rates for US social assistance programmes (only available in many states for families with children) increased among the eligible following the launch of President Lyndon Johnson’s “War on Poverty” (Moffitt 1992). Blank (1997) also shows that take-up further increased in the 1980s and 1990s and added to overall caseloads. Take-up of AFDC (up to 1996) was estimated to be between 80% and 90% when using administrative data, and at a more comparable (to the UK) figure of between 60% and 70% using survey data. Take-up of the post-1996 system (TANF) is lower – both in caseload size and in the propensity of eligible families with children (mostly sole parents). Moffitt (2003) suggests that take-up has fallen to around 40% for sole parents and between 50% and 55% for poorer sole parents.

The American federal programme of food stamps has been in place since 1975 and is available to all types of families with incomes less than a monthly income limit and assets below \$2000 (Currie 2003) of the US poverty line.¹⁷ Thus, food stamps are provided to social assistance claimants (AFDC and TANF) as well as people on low incomes, pensioners and disabled people. There have been a number of studies of take-up for food stamps. Early studies concentrated on information problems, and Coe (1983) found that the 54% of eligible people who did not take up assistance reported ignorance of or confusion about their entitlement. This finding was confirmed by Blaylock and Smallwood in 1984. Similarly the GAO study in conducted in 1988 (GAO 2002) found that the 51% who did not take up assistance believed they were ineligible. Blank and Ruggles (1996) found take-up among eligible women correlated with being black, young, never married, disabled, not working and having a large family. These were factors that were also associated with persistent poverty. Daponte et al. (1999) using an experimental methodology confirmed that food stamps were least likely to be taken up by those with small entitlements but that information problems were also present. They found an overall caseload take-up rate of 75% and an expenditure take-up rate of 87%.

Recent studies of the fall in the take-up of food stamps are an important source of literature; for survey and methodological approaches and for evidence of what underlies the rising rate of failure to take-up. Bartlett and Burstein (2004) surveyed eligible non-participants and found little support for non-awareness as 96% had a

¹⁵ Social renters rent a property from the government, local council, etc, and are receive a housing benefit or subsidy. Private tenants rent from private property owners, and are part of the standard rental market.

¹⁶ The US tends to define sole parents as “single mothers” on a criterion of marriage rather than living and household arrangements. This makes comparison with other countries that use only demographic composition to define lone parenthood difficult.

¹⁷ See discussion of the US poverty line and its basis in Currie 2003, chapter 4.

basic awareness of the programme. Awareness was highest for working-age people with children. The more important reason for non-take-up was *awareness of eligibility*, with only 43% aware. Overall attitudes explained non-take-up, with 91% restrained by feeling they “can get by without” or “do not like to rely on government assistance”. Bartlett and Burstein define stigma separately, although attitudes to independence are obviously partly from stigma and this only explained a smaller additional reluctance to apply. This stigma was based on previous experience of the programme, such as being treated differently when using food stamps in shops. A smaller number of eligible non-participants had approached the welfare office and had not obtained information or application forms.

Bartlett and Burnstein (2004) sum up the evidence well by saying they found fairly consistent evidence on who did not take up, but less clarity on how this linked to underlying sets of characteristics.

Households with historically lower than average participation rates include those with elderly members, with a white or Hispanic household head, and households with earnings. Households with higher incomes, assets, and headed by individuals with relatively more education also have lower participation rates. In contrast, participation is highest among households with children, large households, those receiving public assistance, and those receiving higher than average FSP [Food Stamp Programme] benefits. Multivariate analyses of the relationship between participation rate and household characteristics show similar findings, though race, the presence of children, and FSP benefit levels have significant effects in some, though not all studies. This suggests that the variation in participation rate and household characteristics among these sub-groups may stem from correlation between these characteristics and other characteristics that significantly affect participation rates. (p4)

Gross estimates of take-up include many who are not families with children, and are in the region of 69%, with a rise in take-up over the period of 1988 to 1994 (Currie 2003) but a subsequent decline. As expected, families with children are more likely to take up assistance than elderly claimants; in 1994 it was estimated that 86% of eligible children received food stamps. The US Congress Committee on Ways and Means reported that take-up was higher for lone parents – near 100% – compared to other households with children at 78% (1998). However, this finding is not wholly supported by evidence from longitudinal data that found many sole-parent families leaving TANF for work had failed to take-up entitlement (Zedlewski and Brauner 1999).

2.3.2.2 In-work transfers to families with children

Britain again leads the field with an historical time series of official take-up rates¹⁸ of in-work transfers payable to low-income families with children.

¹⁸ This is confirmed by the OECD study, Hernanz et al. 2004.

Table 2.2 Take-up of in-work transfers by families with children in Britain

| | 1990/1991 | 1991/1992 | 1993/1994 | 1994/1995 | 1995/1996 | 1996/1997 | 1997/1998 | 1998/1999 | 2000/2001 | 2001/2002 | 2002/2003 |
|--------------|---------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|------------------------------|-----------|-----------|
| | Family Credit | | | | | | | | Working Families' Tax Credit | | |
| Caseload | | | | | | | | | | | |
| All | 62 | 66 | 71 | 69 | 70 | 71-75 | 67-70 | 66-70 | 62-65 | 71-74 | 72-76 |
| Lone parents | | | 77 | 80 | 80 | 77-84 | 74-80 | 78-84 | 77-83 | 82-88 | 84-90 |
| Couples | | | 66 | 61 | 62 | 65-70 | 59-64 | 55-60 | 49-53 | 59-64 | 59-65 |
| Expenditure | | | | | | | | | | | |
| All | 68 | 73 | 81 | 82 | 83 | 82-88 | 75-81 | 75-81 | 80-85 | 82-88 | |
| Lone parents | | | 86 | 90 | 91 | 84-92 | 80-88 | 84-91 | 85-95 | 89-95 | |
| Couples | | | 76 | 75 | 76 | 77-86 | 69-78 | 61-70 | 71-78 | 71-80 | |

Source: Inland Revenue 2004 and DSS 1999 (and previous versions)

Table 2.2 shows take-up rates for Family Credit (introduced in 1988 to replace the previous, less generous Family Income Supplement (FIS)) and WFTC (introduced in 1999 and also a more generous system than its predecessor). Another policy change in 1992 reduced the weekly hours of work required to qualify for Family Credit to from 24 to 16. Alongside these policy changes have been changes in the underlying survey data and methodology used, which meant improved measures were available from 1993 and estimates moved from point to range estimates in 1996/1997. These figures show that lone parents consistently have higher take-up than couples, and that expenditure take-up rates are higher than underlying caseload rates. Both of these findings reflect the core research finding that take-up declines with smaller entitlements/higher original incomes.

A number of studies have measured take-up of British in-work transfers. We concentrate on those across periods of policy change to maximise the ability to generalise on underlying characteristics that may also apply to New Zealand. The Dorset and Heady (1991) study of FIS between 1984 and 1987¹⁹ included multivariate probit estimation that showed take-up negatively associated with take-home income with age of the head of household and education level, and with private renting and owner-occupation. No difference was found for ages of children.²⁰ More recent work looking at both Family Credit and WFTC (Brewer, Suárez and Walker 2003) confirms that lone parents are more likely to take up assistance and that take-up declines with increases in income, from both earned and other sources. They also found that take-up declines with more education, with the presence of disabled adults, with the presence of young children aged less than five years (for lone parents only) and with private renting and owner-occupation.²¹

The change from Family Credit to WFTC in 1999 has also been analysed through more descriptive studies. The Family and Children Study, a longitudinal panel of low-income families with children, set up in 1999, looked at the impact of changed policy on incomes. One aspect of this has been to measure awareness and take-up. McKay (2001:42) reports that awareness among non-claimants – those who could correctly name the scheme providing in-work payments to parents in work – was around 50%. He found that about one-third could name it exactly and the remainder identified the old programme (Family Credit). When asked about the income limits for eligibility, only one-third could put forward a guess and most of these understated the income limits. These figures replicated similar findings on Family Credit from the 1999 survey (McKay 2001). Two years later, the overall awareness level was the same, 50%, but a higher proportion could correctly name the programme as WFTC (Barnes et al. 2004:190).

US evidence is concentrated on the Earned Income Tax Credit (EITC) programme. While this refundable tax credit can be paid regularly alongside earnings it is claimed at the end of the year. Tax-filing is completed in 99% of cases. Because participation is linked to tax-filing there are compliance issues associated with claiming EITC. For instance, taxpayers with previous year(s) of non-filing are more unwilling to file and claim EITC (Scholz 1994). There are no official times series of take-up estimates. The Internal Revenue Service (IRS) estimates take-up in 2002 to be between 82% and 87% overall (Currie 2004). Scholz (1994) found similar overall rates, between 80% and 86%, in 1990.

¹⁹ FIS was introduced in 1972 and was replaced by Family Credit in 1988.

²⁰ Some care must be taken in comparing these results with results for subsequent schemes as eligible weekly hours of work were different under FIS than subsequent schemes.

²¹ This contradicts the findings by Fry and Stark (1993) in section 2.3.2.1, and likely reflects differing times, methods, underlying systems, and populations under study.

The US General Accounting Office (GAO) has also produced estimates of EITC take-up for 1999 that give a breakdown by families with and without children (table 2.3). Households with children have higher take-up rates than households without children, and take-up falls as the number of children rises (GAO 2002).

Table 2.3 GAO estimates of EITC take-up in 1999

| | |
|---------------------|---------------------|
| All | 75.0% (± 2.7) |
| No children | 44.7% (± 3.9) |
| 1 child | 96.0% (± 7.7) |
| 2 children | 93.0% (± 8.3) |
| 3 and more children | 62.5% (± 8.3) |

Note: Actual participation rates at the upper bounds of range cannot be more than 100%.
Source: GAO 2002, table 1

Scholz (1994) also uses multivariate probit estimation to examine the characteristics of (all) non-take-up (but measured as filing a tax return and receiving EITC). He finds non-take-up associated with self-employment and with occupational categories associated with household work (eg cooks, housekeepers and childcare workers), which may point to employer compliance issues. Overall, and because of the compliance issue, take-up was higher according to income and lower for those receiving other state transfers, larger families, those non-married, males and those of Spanish origin (Scholz 1994). It is difficult to know how to interpret these results as relevant to similar in-work transfers that are not tied to the end of year filing of income tax, as there is considerable overlap between non-reporting and non-filing of taxes that would in other systems be taken as non-take-up if considered on income eligibility grounds alone.

2.3.3 Housing allowances

There is very wide variation in housing allowance programmes across countries, tied on the one hand to particular forms of housing finance, social housing provision and private rent control, and particular methods of providing social security and social assistance on the other. First, housing finance systems may provide subsidies that reduce rents below market level or rely solely on transfers to make rent affordable. Or these systems may combine both approaches. Many social assistance schemes pay all or an element of housing costs as a part of the underlying scheme. Others pay housing allowances only to those who do not claim social assistance, and yet others, such as the British scheme, have a two-tier system that pays most to those on social assistance and then introduces income tapers that reduce entitlement as incomes rise above social assistance levels. The design of other transfers may also include assumptions about rent coverage, with or without a separate housing allowance. For instance, recent reforms of in-work transfers in the UK have sought to raise income from in-work tax-credits to lift eligible people out of entitlement to housing allowances and thus reduce overlapping entitlements to means-tested transfers and their potential to interact to cause high effective marginal tax rates.

With these large differences in mind we attempt to focus on take-up for those who have incomes above social assistance levels. Published British data on take-up of "housing benefits" (HB) for rent are based on inclusion of both those who claim underlying social assistance and those who have incomes above it and are thus not immediately relevant for our discussion that seeks to distinguish underlying social assistance and in-work populations.

The Fry and Stark (1993) analysis of HB for non-pensioner working-age adults (those not claiming underlying social assistance) between 1984 and 1987 shows caseload take-up rates of between 48% and 54% and expenditure take-up rates of between 64% and 72%.²² They show that take-up rates are highest for sole parents (69%) and those single and childless (57%) and lower for couples with children (50%) and childless couples (46%). In their multivariate probit analyses, they find non-take-up associated with private renting, age (for men only) and unemployment (men only) as well as the usual findings about falling with income and rising with entitlement, as previously outlined above. These results predate changes in housing finance that raised rents in both private and public sectors. However, Bingley and Walker confirm the tenure, education and income/entitlement findings in a later study in the 1990s (2001).

Studies of housing allowances in the Netherlands also found large levels of under-claiming – Koning and Ridder (1997) estimate take-up rates of around 64% and Rouwendal (2002) between 45% and 63%.

2.3.4 Overview of take-up measurement and analysis

This section has approached three main questions on take-up:

1. Who is more or less likely to access assistance?
2. What is known about factors that underlie variance in take-up rates?
3. What are the important factors that determine take-up for different groups of people?

The evidence is clear that means-tested transfers are consistently under-claimed by those who have smaller entitlements and higher incomes. However, policy makers need to know how this primary non-take-up factor links with other characteristics and how it combines with structural issues of design and implementation of the schemes. Families with children are more likely to take up assistance, lone parents especially, and these findings are commonly found even when income and entitlement levels are taken into account. Other findings, such as that private renters and higher education levels are associated with non-take-up, are probably transferable to New Zealand.

2.3.4.1 Is there evidence of under-utilisation by high-need groups?

There is some evidence of under claiming by ethnic minorities and immigrants. Otherwise the main findings suggest that high-need groups, those with the greatest to gain, claim most. However, the strongest evidence for any effect of under-utilisation by high-need groups comes from the USA and is linked to the system design and implementation for out-of-work social assistance.²³ A system that makes claiming difficult and deters entitlement will have low take-up rates, and putting lifetime limits on claims will alter the way families with younger children (who are probably at highest risk) will put off claiming more than those with older children who are faced with a “use it or lose it” situation (Grogger 2002, Grogger and Michaelopoulos 2003). This brings us back to systemic and design issues and their effect on take-up, and how take-up can be maximised.

There is one further question to consider at this point.

²² These figures include the ineligible recipients identified in the underlying survey data. If these are removed take-up increases to between 57% and 62% caseload and to between 68% and 74% for expenditure.

²³ There is some evidence of interest in New Zealand of US style reforms. New Zealand Business Round Table Policy Backgrounder No 4 – October 2004 for example http://www.nzbr.org.nz/documents/policy/policy-2004/PB_No4.pdf

2.3.4.2 What is the evidence on sustained take-up?

We understand this concern to be about continued take-up across time for those who continue to be entitled but have to renew their claims periodically. Put simply, do those receiving benefits continue to claim their entitlement when they periodically have to re-qualify? The short answer is there is no direct evidence linking entitlement and claiming. However, there is evidence that over a sustained period, low-income families who depend on in-work transfers build a strong and continuing relationship to them (Marsh and McKay 1993, Finlayson et al. 2000). This loyalty matches the Moffitt hypothesis of a fixed stigmatic cost linked to receiving benefits. However, it is also clear from Currie and Grogger (2002) that increasing the requirement to re-verify entitlement increases transaction costs and therefore reduces take-up. There is also likely to be a high level of measurement error in cross-sectional estimations of such take-up; short periods of non-receipt within a sustained period of entitlement may reflect delays by either claimant or administering institution, which may later result in a backdated award for this period. Additionally, the issue of annual review and claw back of overpayment in tax-credits may have particular effects on increasing the marginal transaction and benefit costs at the point of reclaim by potentially linking a renewed claim to an existing overpayment and debt. This is, as yet, not clear from the UK case despite continued high profile problems of overpayment and recovery that have emerged recently (Lane and Wheatley 2005, Parliamentary Ombudsman 2005).

2.4 Maximising take-up

The potential to improve take-up is great, but evidence of what works is minimal. This area is poorly covered in academic literature. It is known that administrative practices are crucial to take-up, “rather minor interventions aimed at simplifying the application process, improving the efficiency of the bureaucracy and/or reducing the perception of stigmatisation, are likely to have tangible effects on participation” (Hernanz et al. 2004:22). Most of the evidence presented here is descriptive. It shows how policies and programmes to improve take-up have been approached but provides little evaluation of such programmes.

Recent evidence on take-up by pensioners in Britain²⁴ by the National Audit Office (NAO) – the official auditing organisation for government – shows that the van Oorschot view of take-up as a systemic problem is now entering administrative orthodoxy. The NAO sees the barriers to take-up operating at three levels.

1) System

- **complexity of the overall system** – including rules which vary between benefits and frequently change, and complex linkages between benefits
- **intrusive means testing** – requirement to provide sensitive information about income and capital.

2) Administration

- leaving the initiative to the claimant to start the claim process – many assume they will be informed of entitlement

²⁴ Northern Ireland has its own separate government administration of out-of-work transfers from the rest of the United Kingdom. The Department for Work and Pensions operates across the remaining countries, Wales, England and Scotland, which together form Britain. In Northern Ireland, there is also an officially adopted “take-up strategy”.

- **poor or inaccessible channels of communication** – the means of communication to obtain information or make a claim may not be appropriate for the client group
- **access to information and advice** – many perceive information as difficult to obtain.

3) Customer level

- **ignorance of and misconceptions about benefits available** – many have little or no knowledge of benefits available, especially if they have had little contact with advice agencies
- **difficulty in completing forms** – some forms are time-consuming and difficult to complete, and many assume the whole process will be difficult
- **fear of stigma and humiliation** – associated with the belief that benefits are “handouts”
- **fear of losing independence** – claiming benefits or transfer is seen by some as being dependent on the state
- **perception that making a claim is not worth the effort** – some make a judgement as to whether the anticipated gains are worth claiming for, given the assumptions about the arduous process.

Source: NAO 2002:4

While the NAO study was of pensioner transfers, especially social assistance, most of this approach is potentially transferable to working-age families with children. Indeed, the NAO report has been used by many local government organisations to review initiatives for take-up in their areas.

Currie puts the problem succinctly by pointing out the way take-up will increase:

- a) more people want the service;*
- b) the fewer the barriers that are placed in their way; and*
- c) where institutions (including private ones) have incentives to assist individuals in taking up their benefits. (Currie 2004:23).*

We use Currie’s threefold distinction for the remainder of this section.

2.4.1 Raising awareness and reducing information costs

In their review of marketing and awareness campaigns, the Social Security Agency for Northern Ireland (SSANI) reported that a targeted marketing campaign for pensioners resulted in 14,659 claims being received, of which 8,000 were successful. However, publicly available information about the success of state agency information campaigns is generally very limited. The NAO in the UK cites national advertising as having the advantages of a large audience and raising general awareness, and that it can assist alongside more specific measures. However, information geared for a wide audience is rarely specific enough; it can confuse and raise false expectations, increase the workload of ineligible applications and potentially discourage people from making future applications when they will be eligible (NAO 2002:44).

The Department for Work and Pensions has produced a “good practice guide” to support take-up in Britain. It states that publicity material has less effect than outreach or within-government data-matching techniques: “25% of initial contacts from publicity may go on to make successful claims”; compared to 50% of people who seek advice after outreach work. However, targeting outreach and advice work using data-matching for particular groups results in 80% of people targeted and going on to make a successful benefit claim (Pensions Service 2002).

Information has to be comprehensible and information and external publications from SSANI and others must be assessed against a plain English standard, with a target of 75% achieving the “Crystal Mark” level set by external assessors, which means it is satisfactorily readable plain English.

Outreach is another potential avenue for increasing information and SSANI organised a series of 60 benefit road shows between April 2003 and March 2004. Although there is no direct evaluation of their effectiveness, it is stated that: “Outreach advice work can be extremely effective” (Pension Service 2002:4). Outreach may assist groups such as ethnic minorities with particular needs (language, cultural attitudes) or particular barriers to claiming. The ethnic minority outreach service for the British Department for Work and Pensions was based on advice, referral and information services contracted out to voluntary sector providers in areas with a high number of people from an ethnic minority. This service aimed to ensure access and awareness on a full range of DWP-based services, especially employment services. The evaluation finding, that:

EMO had a major impact in increasing ethnic minorities’ awareness of ... opportunities, especially among Indian and Pakistani women. The language and outreach skills of EMO workers were crucial in reaching these groups” (Barnes et al. 2005:3)

has implications for wider issues of awareness and access to income maintenance services for people of working age.

A different form of “outreach” is to encourage claims linked to trigger points – events that will often bring people into entitlement, that occur in a range of services outside those that assess and pay transfers. For instance, take-up of child-related transfers can be linked to birth, and registration of births ensures high take-up of Child Benefit (a universal family allowance) in the UK and of the Canadian Child Tax Benefit. Similarly, American hospitals have been encouraging claims for Medicaid during pregnancy and birth (see discussion below). The choice is whether to make such links purely information based or to encourage a direct element of claiming – to additionally reduce transaction costs – through claim boxes on existing forms, sharing of databases or other methods discussed below.

The impact of in-work transfers on making work pay and encouraging job entry has been shown in the UK to be optimised by individual face-to-face discussions around “better off calculations”, where the employment adviser calculates and demonstrates entitlement to in-work benefits and their impact on income after entering work. These are done for both “theoretical” and actual job opportunities. This approach has been found especially helpful for sole parents (Evans et al. 2003), for whom the employment adviser (the case manager in New Zealand) has access to a “fast track” system of claim and award of in-work tax credits for clients, to ensure rapid and accurate payment on beginning work and to avoid delays and “hassle”.

Take-up information campaigns in the UK were originally initiated and organised locally. This was done often in conjunction with local authorities who wanted to maximise local income (and revenue to themselves), and reduce poverty levels. More recently, information partnerships have been set up to ensure that take-up activity is planned and implemented in an optimal manner (for pensioners mainly). The DWP in Britain works with local authorities in co-ordinated take-up activity, and advises:

Any strategy to improve income take-up requires good forward planning. Local authorities often plan activity in annual service plans. In many areas there is regular liaison involving the Department for Work and Pensions. It is important to

involve organisations linked to the target customer group and to have arrangements in place not only with benefit providers, but also with advice agencies and customer groups. It is good practice to establish a project management team to oversee the take-up initiative and to draw up a list of essential stakeholders. Stakeholders should be involved in the development of the project and ideally should include representatives from relevant bodies, such as relevant staff from the Department for Work and Pensions. Involvement of the Department for Work and Pensions is very important as the impact on call centres and claims processing work needs to be safely managed. The project management team must assess the impact of any take-up campaign at a local level, for example the impact of an influx of enquiries/requests for further advice and benefit claims to process. A take-up campaign needs to be managed to ensure that the customer's expectations can be met. (Pension Service 2002:7)

The local authority example of Blackpool shows how information and take-up action can be co-ordinated from both central and local levels. The background paper on take-up co-ordination lays out the following issues and approaches:

- *Voluntary, public and Council Groups joined together to become Advice Link*
- *By joining together they were able to use their resources and expertise more effectively to address Social Exclusion by increasing the take-up of benefits*
- *Hold regular free advice road shows*
- *Deliver Benefit training to a wide range of organisations and individuals*
- *Fund regular advice sessions in Doctors surgeries*
- *Produce information on benefits and services for people with health problems and people in work*
- *Regular column in the Evening Gazette (local newspaper)*
- *Newsletters produced*
- *Website giving information with links to other organisations*
- *2 dedicated staff dealing with benefit take-up in the poorer inner wards*
- *Direct line for residents in the inner wards*
- *Dedicated Team, dealing with Benefits, Council Tax and Council Rents where appropriate.*

Source: <http://www.idea-knowledge.gov.uk/idk/aio/1720694>

An essential lesson from the British experience is that:

“Specific targeting is by far the best way of ensuring that entitled non-recipients claim the benefits that they are entitled to. Targeting is the best method of:

Making sure that the information goes to those who are eligible; and reducing the amount of money spent on ineligible claims. (Pensions Service 2002:5)

2.4.2 Reducing transaction costs

In theory, there is the ability to reduce transactions costs to near zero by automatic enrolment in programmes using existing data on incomes and circumstances, either from income taxation or other transfer claims. To be optimal such an approach would need common definitions of income across different forms of entitlement, or have the ability to accurately deduce different income measures from single sources of information. There is a practical problem of differences between household, family and individual level entitlements. However, electronic data sharing, combined with consent and linking across individuals, presents medium- to long-term opportunities for improving take-up. The disadvantages and advantages of data-matching are discussed by the NAO (2002), who see potential efficiency and effectiveness in combining data matching with other take-up measures. The disadvantages are that an “assumed claim” may cause offence, additional information is very often needed and confidentiality issues are potentially problematic (NAO 2002:44).

The general finding from literature on improving take-up is that a passive approach to giving information and allowing claim forms to be found, completed and presented for administration is sub-optimal (NAO 2002).

The lesson for take-up from claim form design is that simplicity and shortness encourage take-up (NAO 2002). However, these factors are to a large extent a reflection of the complexity of the overall schemes and are thus partly in the hands of policy makers.²⁵ For instance, simplifying and reducing the claim form considerably led to a plethora of pro-forma requests for further information that were sent to claimants after their initial claim had been made (NAO 2002).

Even where claims for one transfer programme are not used as claims across a range of entitlements, it can still be important for take-up to recognise the links between entitlements across a number of programmes in any package of transfers. It is a common finding that claiming one transfer will increase the probability of claiming other elements (Yelowitz in the USA, and Noble et al. 1992 and NAO 2002 in the UK, for instance). This means that different organisational attitudes to claiming and take-up, differing organisational cultures, and information needs should be strategically linked in any cross-programme commitments to take-up (NAO 2002).

There is little evidence that linked administration, beyond the evidence for one-stop shops at the front end of the process, is well-received by customers. Where single access points bring together very different programmes with different approaches and organisational cultures, there is considerable investment required in training and expertise for staff involved (NAO 2002).

Telephone call centre and internet access can reduce transaction costs – particularly for remote areas and for groups who are best able to use such services. However, such services for some groups, for instance pensioners, were found not to be universally appropriate (NAO 2002).

2.4.3 Organisational incentives

Currie suggests that higher take-up of some American transfers reflects organisational incentives by businesses and public organisations to increase take-up. EITC seems to benefit from a large number of commercial “tax-preparers” who assist low-income families file taxes and claim EITC. However, Berube et al. (2003) show that these services cost significant proportions of future EITC receipt and lower its impact on raising incomes, and “that one half of EITC was refunded through high-priced loans” (p1). Payments for hospital treatment mean that American hospitals are also given the incentive to assist patients in claiming Medicaid. This seems to explain very high rates of take-up for pregnant women – through hospitals employing private firms to enrol women on Medicaid (Currie 2004). Aizer and Currie (2004) show that a \$US50 payment to hospitals per successful enrolment had a large effect on Medicaid take-up, particularly in Hispanic and Asian communities, and was far more effective than state-wide advertising.

2.4.4 Potential ways forward

The OECD suggests that improving take-up is not solely a matter of public and customer relations activity and improved advertising, but has more structural considerations, for instance:

²⁵ See for instance, the discussion in British Parliament at Committee of Public Accounts (2000).

the existence of significant interactions both among different programmes, and between the welfare and tax system. Receiving one benefit typically makes it more likely that the same person will also apply for other programmes. (Hernanz et al. 2004:22)

Table 2.4 shows the suggested policy measures put forward by OECD that include a review and simplification of rules, improving interactions across institutions and an ongoing commitment to take-up measurement and research.

Table 2.4 Recommendations by OECD take-up review

| | |
|---|--|
| <i>Review and simplify administration rules</i> | |
| 1. | Simplify application procedures |
| 2. | Make access rules transparent and objective, in order to reduce the uncertainty related to the claiming process. |
| 3. | Put in place advertisement campaigns to inform potential beneficiaries about the existence of welfare programmes that respond to their needs and about the application procedures. |
| <i>Improve the interactions with other elements of the welfare state</i> | |
| 1. | Make greater use of one-stop shops to avoid fraud and better inform potential beneficiaries (to improve interactions between various welfare benefits) |
| 2. | Consider carefully the effects of tax reforms on individuals' incentives to take up welfare benefits (to improve synergies with the tax system). |
| <i>Strengthen empirical evidence and research</i> | |
| 1. | Produce regular estimates of take-up rates for various programmes, based on the same data and standardized procedures. |
| 2. | Make administrative data more readily available to the research community. |
| 3. | Conduct ad-hoc surveys at regular intervals (e.g., every 5 years). |

Source: Hernanz et al. 2004:24, table 5

Such an approach has been adopted by the Social Security Agency for Northern Ireland (SSANI 2004). The British Department for Work and Pensions has tended to take forward such a strategic approach for pensioners only. But in doing so, they suggest that to develop take-up work it must be integrated into mainstream services.

2.4.5 Overview of improving take-up

The stated aims of WFF design and implementation – greater simplicity and transparency with user-friendly access, combined with a stated policy aim of encouraging maximum take-up – are important starting points for a strategic approach to take-up. The evidence to date is that a strategic investment across all agencies is needed to ensure this occurs for vulnerable groups, where the vast majority of literature concerns pensioners. The important attributes of a user-friendly application process are low transaction and information costs coupled with appropriate organisational incentives. From the documentation provided, it is difficult to see how this will evolve in detail with the implementation of WFF.

However, if the measurement and collection of take-up data is regularised and performance indicators ensure all policy agencies are working to the same goal of maximising take-up, the main elements of structural commitment to take-up are in place. The other requirement is one of ongoing review of the operation and of the interaction of WFF with other elements of state and voluntary provision, with the potential to involve private market providers.

2.5 Overview

This section covers a wide field of evidence for the consideration of take-up issues in WFF. It brings together tabular and bullet point guides to the international evidence for ease of reference.

Table 2.5 shows the main cross-benefit or cross-country studies that should allow the greatest level of certainty when weighing up findings for their applicability to New Zealand. These studies are themselves literature reviews of different sets of transfers (means-tested, categorical and social insurance) for different populations (all, elderly, working age, families with children). We have ranked them by their foreseen usefulness and general application for New Zealand. The Currie (2004) study is ranked highest because it draws together US and UK literature, and looks at not only reasons for and findings on take-up but also reviews some US methods to improve it. However, this study is strongly based on economic evaluative studies and does not mention the richer, more qualitative work that Corden (1999) and Craig (1991) cover in their earlier studies. We have thus flagged up some caveats in Table 2.5 to put against the strengths of each of the studies. We have also added the Moffitt-edited book (2003) to Table 2.5 because the US literature is widely spread and difficult to condense. The overviews that often appear internationally through advocacy and lobbying can sometimes be over-persuasive towards one or other ideological viewpoint. This text, if available, is a remarkable reference point with top quality contributions that explain the history as well as performance of all US means-tested programmes. It will also assist in literature for employment and child-related outcomes.

Table 2.6 cites the selection of empirical studies best placed to answer the questions about who takes up assistance and why, and that related most directly to the group that most concerns MSD – low-income families with children. Table 2.6 is not a comprehensive list of studies on take-up; they represent those that appear most useful and most able to be generalised to WFF in New Zealand. The first group of studies looks at take-up as a process and what influences take-up; the latter group looks at the characteristics of who does not take-up. Again we have added the main strengths and weaknesses or caveats for interpretation and use.

Table 2.5 Reference studies for take-up

| Study | Country | Programme coverage | Population coverage | Key strengths/findings | Key caveats |
|---|------------|---|---------------------|---|---|
| 1) Other literature reviews and overviews | | | | | |
| Currie (2004) | USA and UK | Means-tested categorical and insurance | All | Common US–UK findings | Economic perspective Little on claim process |
| Hernanz, Malherbet and Pellizzari (2004) | OECD | Means-tested Categorical Social insurance | All | Strong on approaches and data sources Coverage of non-US/UK literature | Mostly economic literature Little on claim process |
| Craig (1991) | UK | Means-tested in-work, social assistance, housing allowances | All | Brings together theory and evidence Good fit for NZ policy perspective | Dated – no tax-credit |
| Corden (1999) | UK | Means-tested in-work, social assistance, housing allowances | All | Brings together theory and evidence Good fit for NZ policy perspective | Weaker on economic approach Dated – no tax credit |
| Moffitt (ed) (2003) | USA | All means-tested programmes | All low income | Major overview of all US programmes Comprehensive and detailed Major reference text for US comparison | Take-up covered inconsistently by programme. EITC and food stamps most relevant |

Table 2.6 Non-take-up: reasons and characteristics of families

| Study | Country | Programme coverage | Population coverage | Study type | Key strengths/findings | Key caveats/limits to generalisation |
|--|---------|--------------------------------------|---|---|--|--|
| Reasons for non-take-up of means-tested transfers | | | | | | |
| Bartlett and Burnstein (2004) | USA | Food stamps | Eligible non-participants Elderly and working age and social assistance | Large quant survey | Awareness, attitudes and stigma found Even with good awareness attitudes and stigma matter | Distinct food stamp characteristics – purchase voucher US policy context |
| Corden (1983) | UK | In-work transfers for families | Eligible working-age families with children | Small qualitative | Delays in claiming Trigger events important Inter-relation of attitudes and claim process | Old type in-work cash benefit Small population of entitlement (doesn't go far up income distribution) |
| Daponte, Sanders and Taylor (1999) | USA | AFDC and food stamps | Low-income families with children | Random assigned experiment | Information improves take-up Transaction costs important | US policy context Mixed in-work out of work groups |
| Currie and Grogger (2002) | USA | Medicaid | Low-income families with children | Regression on administrative data | Increasing transaction costs reduces take-up | Medical care cost programme not basic income support Linked programme to US social assistance. |
| Moffitt (2003) | USA | TANF | Low-income families with children | Regression on several states' survey data | Diversion and other non-financial factors affect take-up | US policy context |
| Characteristics of those that take-up | | | | | | |
| Dorset and Heady (1991) | UK | In-work transfers for families (FIS) | Low-income families with children | Regression on pooled survey data | Income, age tenure and education affected take-up | Old scheme for small number of low paid workers. Few part-time workers |
| Brewer, Suárez and Walker (2003) | UK | In-work tax credits (WFTC) | Low-income families with children | Regression on survey data | Income, tenure, education, presence of young children under 5 and lone parenthood affect take-up | Most relevant to MSD for characteristics analysis |
| Scholz (1994) | USA | In-work tax credits (EITC) | Low-income families with children – tax filers | Regression on survey data | Self-employment, occupation, income, family size, Hispanic | Only In-work earners US tax filing context |

2.5.1 Summary

Alternative theoretical approaches have overlapping merits.

Psychological approaches to attitudes and decision making tend to provide the most insightful explanations of the claim decision and claim process.

Economic distinctions between information costs, transaction costs and stigma (basically a name for other, perhaps unobserved, costs are clear ways to analyse system performance and to use as a basis for strategies to improve take-up.

The institutional view of take-up is useful as a model to build towards – using both studies of claiming and analyses of take-up to provide a comprehensive profile.

Both American and British evidence supports a positive answer to the question “Do people’s views of delivery agencies influence their decision to access assistance?”

What is known about factors that underlie variance in take-up rates? The main universal factors are attitudes, information, the time and hassle costs of application and processing, administrative practice and social and individual perceptions of status – stigma.

The issue of stigma is important and is mentioned across all literature, but it is difficult to measure and capture accurately and separately from other attitudes and beliefs.

Overall awareness of the existence of a programme is important, but the more specific problem for non-take-up is awareness of potential entitlement and this is linked to perceptions of entitlement. This means there is an overlap between scheme complexity, understanding the scheme and how information is tailored to suit the individual’s circumstances.

Who is more or less likely to access assistance? Those with the lowest incomes and highest entitlements are most likely to claim. However, additional characteristics that have been found across studies are age (older people take-up less), size of household (lone parents or single earners take-up more) and education (highly educated people tend to apply less).

Other characteristics can additionally be found to be associated with take-up – minority ethnicity in some cases, although this can be associated with both higher and lower take-up. The age of children is also seen in some studies to be an independent factor. This means that questions about the important factors that determine take-up for different groups of people depend a lot on context. New Zealand is in a very good position to explore take-up of indigenous populations, a particular concern of MSD, as they qualify equally for a national scheme but their take-up profile will depend on their economic and demographic profile and attitudinal profiles across the board.

Is there evidence of under utilisation by high-need groups? On the whole such evidence relates to imposed transaction costs and stigma rather than on information costs.

Evidence on sustained take-up is very limited. There is a finding of long-term loyalty to in-work benefits in the UK that matches economic hypotheses about the fixed costs to status of receiving benefits. However, lower trade-offs between entitlement and transaction costs over time may lower take-up.

New Zealand is in a unique position to use the ability of claimants to choose the period of payment of their in-work payment receipt to explore issues of both take-up and labour supply that this brings about. Emerging evidence from Britain on the review and claw back of overpayments of tax credits deserves close monitoring.

The evidence from the review points to areas where problems of take-up can be foreseen, both in client groups and in operational terms. It is then a case of prioritisation. For instance, weighing up how far an investment in ensuring take-up for those entering work from social assistance is a higher priority than ensuring that in-work payments are given to those already in work who qualify but who have had no trigger point to suggest that they are entitled. The first of these will ensure that more entries into work are sustainable, and will reinforce the employment and making work pay elements of the WFF package, but would be predicted to have smaller effects on the overall take-up rates (especially caseload measures). The second choice would probably involve focusing more on those already in work and already filing tax returns, but could potentially have greater impact on take-up rates for in-work payment. These are illustrative suggestions that point to the types of policy initiatives that could emerge from this review of the literature.

3 Employment

3.1 Introduction

A central theme of the WFF reform is to increase the financial incentives for families with children to work. By increasing employment rates and supporting employment financially through an in-work payment (IWP) there will be additional reductions in poverty for families with children. IWP is thus a crucial central element of the WFF package. One of the particular problems with families with children is that their out-of-work transfers takes into account the size of their family, whereas wages from employment do not, and the number of potential hours of work is constrained by the presence of children.²⁶ IWP seeks to ensure that employment makes families with children better off.

The reason for the importance of such making work pay programmes is that wage levels for unskilled work have fallen in recent years in relative and often real terms, over a period when labour market rewards for skills have increased. This means that those most at risk of being out of work in terms of their skill and education profile face poor incentives to return to work because their earning potential is limited. Children increase this risk as their presence means that parents can work fewer hours, especially when the children are young.

IWP is one of an increasing number of in-work transfers that are being adopted by a range of governments across the world. This cross-national practice of intervening to change the financial trade-off between being in work or being non-employed and receiving transfers has been called “making work pay” in many commentaries.

When we look at IWP and the other WFF interventions alongside similar programmes in other countries we encounter serious questions of just how similar they are if we take into account a wider underlying policy context. Most OECD countries have interventions to assist labour demand and supply and to make work pay programmes fit into a package of such interventions – some macro-economic, some based on individual incentives. But other interventions that exist, (schooling and nursery provision, for instance, and maternity and paternity leave and other family friendly employment practices), can make comparison and interpretation of the “making work pay” element alone very restricted. Similar programmes may be compensating for problems elsewhere in the system and on the contrary, the absence of such programmes in countries may point to significant alternative interventions that ensure parents can enter and retain employment.

Our task in this section is clear. We review the general evidence about how these making work pay transfers exist alongside other ways of making work pay. Then, we select countries – the UK, USA and Canada – which have similar programmes in similar contexts and have sufficiently robust evaluation evidence to make its inclusion worthwhile.

We first need to cover four concerns: the *theoretical basis* and limitations of interventions such as IWP; the relationship of in-work programmes to what happens in terms what have come to be called “activation” programmes and interactions with

²⁶ We will not enter into detailed discussion of household labour supply, but female labour supply is usually more constrained than male labour supply, in a couple. However, the differences depend very much on earnings and education and differ greatly between countries. In some countries it has been found that male’s labour supply can actually increase after having children, for instance.

other public policy. This “activation” label (rather inconsistently applied by many) refers to the rules of claiming out-of-work benefits and the imposition of employment conditions and sanctions. We call this “*conditionality*”. Conditionality rarely exists alone because many of those who claim out-of-work benefits require programmes to improve their employability characteristics, to narrow the distance they have to the labour market and to assist in job search and job getting. We call these “*active labour market programmes*”. Together these activation characteristics vary greatly between countries, even if they have similar looking in-work transfer programmes. Finally, we consider the potential for in-work transfers to interact with other forms of policy interventions when parents are in work. These are taxes, health care and health care charges but also more directly the childcare and pre-school provisions described in section 5.

3.1.1 *Theoretical incentives and outcomes*

There is a sound labour supply rationale for IWP. Raising in-work incomes for families with children through IWP will make job entry probabilities higher – as it alters the costs and benefits of employment in a number of ways.

First, it can influence the so-called “reservation wage”. This means that a parent looking for employment will have in their mind what is needed to ensure their family is provided for and will look for a wage that matches these expectations. What IWP can do is to lower the reservation wage by ensuring that a lower wage will be topped up to make it meet the expectations of required living standards, either in full or in part.

Second, it can also solve the so-called “unemployment trap”. This is where net income in work is less than or only marginally different from net incomes out of work. If the income from out-of-work benefits is compared to income from work and expressed as a ratio, this is termed the “replacement ratio”. The hope is that the reforms will decrease the replacement ratio for most families, lowering the replacement rate of social assistance from say 80% of net income to 60% of net income by raising in-work incomes for the difference; in this example, 20%.

But IWP will not only affect the movement into work (“job entry”), but also those already in work. This is a key distinction from other forms of intervention in other countries. Some systems allow claimants of social assistance to keep entitlement while they work and then withdraw it as incomes rise or after a period of time in work. A simple way of thinking about this is that such schemes are primarily focused on job-entry transitions, moving people from “welfare to work”.

IWP does more than this because it has an income support and anti-poverty role as well. This has important consequences for its evaluation because it will go to many low-paid people who are already working. This means the pure net impact on reducing non-employment, or “additionality” of the programme, will be less because many who receive the programme do not have to *move into work*. This impact could be interpreted as “deadweight” if one ignores the aims of reducing poverty and keeping people in work working.

IWP is most generous to those with the lowest earnings and is targeted so that its generosity declines as incomes rise. This feature is shared with countries that taper out their social assistance to encourage transitions as discussed above. Tapering of entitlement as income rises does not happen in isolation, however, but will at some point in the income distribution occur alongside other policy interventions. The most obvious is income tax, but there may also be housing allowances, and health and education charges, for instance. Together with IWP these will reduce gross income

by combining a range of claw-backs as income rises and crosses various thresholds. This means that the withdrawal rate for the IWP taper, alongside the tax rate, alongside the taper for withdrawal of other programmes, may all add up to a substantial effective marginal tax rate (EMTR). Calculating such EMTRs means that the net income after all tapers and taxes have been applied is compared to the gross income and applied to the marginal additional dollar or hour of work. The combinations of taxes and tapers may lead to very high EMTRs – they are as high as 90% for some in the UK, for instance. This means that working an extra hour only leaves you with 10% of what you have additionally earned at the income ranges that this rate applies. Because those with lowest incomes are more likely to encounter multiple withdrawal tapers, the highest EMTRs tend to be for the lowest earners. For this reason in the early 1970s this phenomenon was called “poverty trap”.²⁷ It made escaping from the margins of poverty impossible; each additional hour of work did not provide sufficient net income to close the poverty gap significantly or to achieve sufficient clearance from the poverty line.

How do all these potential effects and interactions affect the potential outcomes of programmes that make work pay? At this point it is worthwhile recapping on some of the theoretical expectations for the WFF programme on employment that were discussed in part 6 of the accompanying methodology report (Bryson et al. 2006).

The most important point is that increases to employment from the job-entry effect of IWP will be offset by potential effects where those in work reduce their hours or stop working when faced with the higher EMTRs. Labour supply is based on two decisions: to work and, for those who choose work, the number of hours to work. In our accompanying report we suggested the following,

Assume for the moment that these are relatively unconstrained choices of individuals and that the choice is determined largely by the net income generated by decisions and preferences for work versus leisure at different levels of net income. These decisions are affected by what economists call income and substitution effects. The income effect refers to changes in desired hours of work as individuals’ incomes change, holding the wage rate constant. If leisure is a normal good, the effect of higher income (with a constant wage rate) is to reduce labour supply. The substitution effect describes the effect on a person’s choice between hours of paid work and leisure as the wage rate changes, holding income constant. An increase in the net wage rate (with constant income) may be expected to increase labour supply. (Bryson et al. 2006:45)

When it comes to choosing hours of work, and especially for those who are entering work from benefits, those with the most constraints on their work (and in practical and applied terms this is most easily observed with sole parents) often choose to work for the number of hours at the threshold of eligibility for in-work transfers. This has been called “the backward bending labour supply curve” by for example Blundell (1994).

But many work decisions are not made by individuals but by households, usually, for the purposes of WFF, couples (with children). For couples, where both partners are facing job entry, there is a dual or single earner choice. Who should work and for how many hours –individually or combined? If we assume full IWP take-up and this means that all are making the choice with IWP in place, then a weekly 30 hours’ eligibility condition at the household level enables both individuals in a couple to work for shorter hours. This is different from many other in-work transfer programmes and

²⁷ The term “poverty trap” was first coined in 1972 by Piachaud and Field in a *New Society* article that analysed the contemporary system of means-testing in the United Kingdom at the time. It was also at a point when discussions of integration of taxes and benefits were occurring and with the first introduction of a specific in-work transfer – Family Income Supplement – discussed later in the chapter.

may help to avoid the “dual earner” versus “no earner” (“work rich and work poor”) households that appear in the UK (described below). However, if there is already one worker in a household receiving IWP and their partner is considering job entry, the high marginal tax rates (EMTRs) described previously may deter them from doing so, unless the additional income takes them clear of IWP eligibility. There will be little net increase in income if they enter work and remain within IWP entitlement. This potentially means there is little incentive for second earners for *long periods of time while children are present in the household* unless income increases through earnings progression or the potential second earner can command higher wages.

IWP may also theoretically be seen to reduce existing work participation in couples where both already work. Once entitled to IWP it is possible that one parent (with a presumption that it is the parent with lower attachment to the labour market – possibly working part-time and most usually the woman) will either work fewer hours, reduce his/her hours or withdraw completely from the labour market. These factors mean that the direct employment effects of in-work transfer policies may produce increases in employment rates – but that the overall effect is due to the accumulation of a number of underlying effects.

As discussed in part 6 of the methodology report (Bryson et al. 2006) we can predict a number of different effects under a range of standard economic models and assumptions.

First, the expected effects on those who are out of work are:

- a *job-entry effect* – this means that either those who previously did not choose to work now do so or that others bring forward their planned entry into work
- a *lowering of reservation wages* – which may increase the numbers actively job searching but may also affect the type of jobs accepted, by attracting people to work for less than they would normally demand. This may mean that job matching to their skills profile is potentially weakened.

Second, for those already working there are the following expected effects:

- a *retention effect* – WFF will act as a buffer to those in work whose circumstances or income changes in ways that would have made them leave work in the absence of WFF
- an *increased hours effect* – there will be a group of existing workers whose part-time hours are below the eligibility threshold, who would gain from an increase in their hours to receive a considerable rise in income
- a *decreased hours effect* – as discussed previously, the effect of high EMTRs is mainly reducing hours of participation and promoting underemployment
- potential effects on *individual earnings progression* – high EMTRs can, in theory, reduce incentives to gain promotion and to invest in skills and other human capital that would raise earnings. However, this may be offset by employers having lower wage costs and a greater ability to invest in training.

In addition there is a range of *general equilibrium effects* – WFF may not only affect participants but may also have wider effects on non-participants by substituting their job-entry or other outcomes through displacement:

- the potential exists for WFF to increase *aggregate employment*. Such job growth will put more spending power in the hands of consumers and thus contribute to aggregate demand for goods and labour
- changes to the aggregate *demand for labour* where WFF could increase the overall labour demand. IWP makes wages relatively cheaper than other labour demand factors and may allow employers to employ more people. Similarly,

increased levels of job searching can reduce pressure on wage growth and increase the number of jobs offered

- changes to *general wage setting* – subsidies may allow employers to reduce wages towards the minimum wage because the difference will be covered for many by WFF. Recipients may reduce demands for increased wages because of high EMTRs but non-recipients may also be affected
- paying for the programme and taxation and the effect of the programme on tax behaviour also has to be taken into account.

For fuller discussion of these effects and further clarification read the accompanying methodology paper (Bryson et al. 2006).

The key point here is that the international evidence available to answer the question of “how far in-work payments increase participation in the workforce” has severe limitations. Rarely does a particular national body of evidence cover all these potential aspects of outcomes. More importantly, determining how far the particular intervention of in-work transfers has *independently* produced any of this large portfolio of potential outcomes is difficult because of the operation of simultaneous additional policy programmes. These potential theoretical outcomes for in-work supplementation will not occur in isolation, and evidence of the actual outcomes from such programmes is influenced by other policy programmes as well as taxation and the macro-economic environment. Exactly the same programme but with a different method of finance may have very different outcomes. Exactly the same in-work programme with different policy assumptions about conditionality and active labour market programmes will also potentially have very different outcomes.

These two last areas of policy context are most essential to interpretation, if we leave aside the question of finance and taxation.

3.1.2 Welfare populations and active labour market programmes

If one thinks of IWP supplementation as a “pull” factor that improves incentives to move from non-employment into work then most countries have policy programmes that exert a “push”. Such policies differ greatly – between countries and between target groups within countries, and the amount of push can be anything from gentle persuasion to a compulsory shove. This means that two hypothetically identical in-work programmes may have different outcomes purely because of how their target group is contextualised and what happens to them (Evans 2001).

Indeed, when we think more broadly about the general policy aim of “making work pay” and incentives to work, there is an alternative to increasing in-work support: to decrease out-of-work support. OECD countries show a broad pattern of reducing periods and generosity of entitlement for core unemployed populations and more varied treatment of the wider social assistance provisions. These changes usually mean increasing obligations to participate in active labour market programmes rather than substantial changes to entitlement. The main outlier is the USA. Before 1996 “welfare reform” centred on increasing participation in employment-related activity but from 1996 has made huge inroads into reducing entitlement. Since then there has been no “entitlement” to social assistance at all but a lifetime-limited eligibility of five years on the programme (reduced to two years in some states) during which employment-related obligations have also been raised significantly (Evans 2001).

This is not the place to discuss such changes in any detail, but rather to emphasise that individual and aggregate level employment outcomes result from both push and pull factors and that it is essential for interpretation of cross-national evidence on

employment outcomes that such differences in context are understood and taken into account.

3.1.3 Interaction with other policy

The implementation and success of in-work transfers also rests on what policy framework surrounds and accompanies employment, especially for parents.

As mentioned in section 3.1, some schemes to improve incentives to work may involve improving the way social assistance treats earnings to encourage recipients into employment alongside their entitlement to social assistance rather than having a separate in-work transfer. Some of these schemes are time limited and some are not. Much experimental evidence relates to programmes that operated as part of American waiver schemes²⁸ before 1996. This means that some of the evidence on in-work transfers is not through separate programmes and relates solely to ex-social assistance claimants rather than the more general population of low-paid workers.

Significant emphasis has been put on the interaction of other transfer programmes and the combined EMTRs that result from overlapping entitlements and withdrawal of means-tested transfers. But there are other interactions with potentially important effects and that have been found to be important in other systems. Health provision is an obvious case. Many parents have a high likelihood of health care needs for themselves and their children, and paying for user charges and prescription costs can be important factors for those faced with potentially high costs. Similar considerations apply more widely across parents for school-related costs.

Maternity leave and childcare provision both strongly influence underlying parental employment rates and the impact of in-work transfers. Maternity leave provisions in some countries allow for up to three years' leave during which the parent can continue to be counted as "employed" – this makes direct comparison of parental employment rates difficult. Provision of pre-school childcare differs hugely between countries from universal free full-time provision at the age of three or less in France to more restricted and selective private provision in others. Such differences hugely alter the costs of parental employment and the need for and generosity of in-work transfers.

These three considerations show that while there are clear theoretical outcomes that can be expected to be common across countries with in-work transfer schemes, comparing the outcomes and interpreting their relevance for WFF in New Zealand can be very difficult and has to be carefully contextualised. Our approach is to first outline general cross-national evidence on in-work transfers and making work pay. Next we focus on three countries with a good quality of evidence about how changes in policy over time have affected employment.

3.2. Making work pay, making work possible – OECD and general cross-national evidence

The OECD put the issue of in-work transfers and financial incentives neatly into the wider context with the phrase "Making Work Pay, Making Work Possible" (OECD 2003b), encompassing both supply and demand side characteristics that can raise

²⁸ States in the USA were encouraged to introduce innovative changes to AFDC programmes under a waiver of federal rules if they also employed experimental evaluation of such innovations.

employment rates for women, lone parents and others who have particular labour market disadvantage.

The common characteristics shared by WFF reforms and American and UK systems are their scope and size. They are all “generous” and generally available across the low-paid target group rather than linked specifically to social assistance receipt. Making a substantial difference to incomes at the margins, ie relative generosity, does seem important. Evaluation of less generous schemes, such as the French Prime pour l’emploi (PPE) where support is between 4% and 7% of recipients’ income, suggests it has low employment impacts (Cahuc 2002, OECD 2003b). In contrast, American and UK schemes contribute around 40% of income or more for those at the lowest earnings.

Other policies to make work pay have focussed on lowering tax for the low paid – either for employers, employees or both. The UK has done this alongside introducing a minimum wage and improving the generosity of in-work transfers. Evaluations tend to show such schemes provide aggregate increases in employment on the basis of a general equilibrium assumption. Belgian schemes raised all employment by 3.2% and low-paid employment by 6.7% (Sneessens and Shadman 2000, OECD 2003b). French schemes had broadly similar results (OECD 2003b) while Dutch schemes saw overall employment raised by 1% and low-skilled employment by 5% (Mühlau and Salverda 2000, OECD 2003b).

The most interesting points for international comparison come from how such schemes compare with the approach of using income transfers. O’Donoghue and Uthoff (2000) suggest that their analysis shows more commonality across “Anglo-Saxon” type policy regimes (US, UK, Eire) and “Continental European” policies on their impact on wage distribution, and on poor incentives to enter low-paid work. But they found greater differences between schemes for second earner effects and on incentives for longer hours and income progression where those systems using means-tested in-work transfers fared worse. In the words of Fitoussi (2000), such schemes are not a “miracle solution” to solve employment and distribution problems, but have the potential to increase the actual volume of employment by around 2% in France and similar economies. Gradus and Julsing (2001), looking across five European systems, demonstrate that tax-credits are more effective than reductions in taxation for job creation.

If the main objective of reform is to reduce the unemployment among the low-skilled, an in-work tax credit is more effective than reducing the basic rate. A tax credit is at least two times as effective as reducing the basic rate. Phasing out the tax credit makes it even more effective in reducing unemployment among the low-skilled, although there can be some drawbacks in incentives for training and labour supply in hours for the low-skilled workers.” (Gradus and Julsing 2001:22)

Looking across the range of policies that make work pay, Pearson and Scarpetta (2000) find that the theoretical predictions outlined in section 3.1 are largely vindicated. They summarise:

the overall message ... is fairly optimistic. Make work pay policies promote employment of the target group of those who might otherwise be trapped in joblessness. As a result of MWP policies, there is some reduction in hours worked or employment by those already working, even though such negative effects can be mitigated by judicious design of the scheme. (Pearson and Scarpetta 2000:16)

The main finding from the OECD and other cross-national reviews is that employment conditional benefits provide better work incentives and an important redistributive programme (this is discussed more in section 4).

While being both a pillar of their redistribution systems and accounting for substantial transfers, evaluations have shown them to provide effective incentives to return to employment. (OECD 2003a:3)

The review of OECD members with programmes that make work pay leads us to define more closely what is appropriate for review for MSD. First, there is the question of the form of intervention – a refundable tax credit or in-work cash transfer paid to low-paid families with children. Next is the issue of accompanying policy assumptions and policy context. Australia, the UK, the USA and Canada all share some standard assumptions about liberal labour market policies, have more limited interventions for pre-school and childcare than continental European schemes, and have similar approaches to means-testing as the major targeting mechanism for transfers for working-age families. Third is the availability of evidence, not just on employment outcomes but also on the linked aim of poverty reduction, so that results can feed in to discussion in section 4 more easily. This last criterion leaves us with three countries that have refundable tax credits or in-work cash transfers (increasingly the former) with a sufficient evidence base: the US, the UK and Canada.

3.3 Refundable tax credits to families with children

We now turn to the in-work transfer systems that look most like the WFF programme, especially to two countries with the longest experience of running such programmes and with the greatest amount of evaluation evidence: the UK and USA. We will also look at two schemes in Canada with good evaluation evidence.

3.3.1 The United Kingdom

The UK has the longest history of in-work supplementation of wages for low-paid families with children, beginning with the introduction of Family Income Supplement in 1972. This scheme was replaced by Family Credit in 1988, which made in-work benefits more generous and targeted sole parents and part-time work by reducing the weekly hours of eligibility to 16 in 1992. Working Families' Tax Credit (WFTC) replaced Family Credit in 1999 with a more generous system and clearer subsidies for childcare costs. This also marked a change in payment form, from weekly benefit paid by the Department for Social Security directly to the individual, to a tax credit administered by Inland Revenue and payable via the wage packet (the UK has a “pay as you earn” system that deducts weekly income taxation liability at source from employees together with social insurance contributions) or to the individual. One crucial characteristic of the old system was kept: WFTC stayed as an immediate weekly payment, unlike other tax credits in other countries, which are claimed at the end of the year.

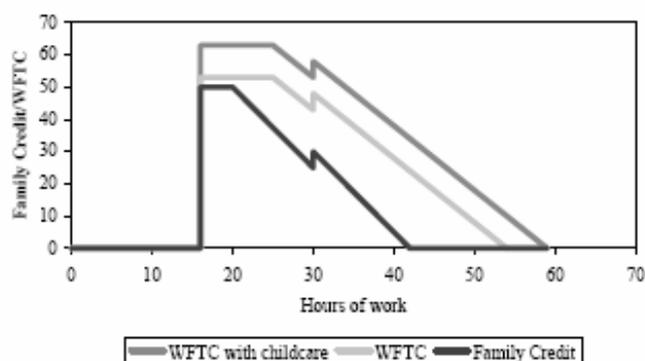
A new system of tax credits in April 2003 brought a Child Tax Credit payable to all who are in and out of work with children, but withdrawn at higher incomes. This was accompanied by a Working Tax Credit, payable to all low-paid, with or without children. There is no labour supply evaluation evidence for this latest scheme yet. Our approach with the UK evidence is to review the most recent literature on the change from Family Credit to WFTC since 1999, because it benefits from more recent methodologies and approaches.²⁹ We then assess how far the evidence is consistent with earlier literature on effects of Family Credit and FIS. An important

²⁹ There is also evidence of experimental in-work transfers for people without children through the “earnings top-up” pilot. This is not covered here.

point to note (in contrast to the USA), is that a universal non-means-tested child benefit programme in the UK pays weekly benefits to those with children aged under 16 and to those with older children under 19 in secondary education.

Both Family Credit and WFTC ignore all income from child support maintenance payments, sums that are taken into account when calculating social assistance and thus contributing strongly to incentives to work in combination with earnings. Several important points of policy context that affect interpretation of evaluation evidence of WFTC have arisen from 1999 to 2004: these changes were accompanied by the contemporaneous introduction of a national minimum wage, reductions in social insurance liabilities for employees and employers for the lowest paid and the development of national active labour market policies for lone parents and partners (usually female) of those claiming unemployment and other out-of-work benefits. The “New Deal for Lone Parents” (Evans et al. 2003) is the most important of these for discussion. Less clear but also present was an increased commitment to childcare provision through a National Childcare Strategy and accompanying area-based programmes to improve childcare in the poorest communities. The supply of childcare was also stimulated by the elements of WFTC now available to meet childcare costs. Additionally, the UK had entered the longest continuous period of economic growth and job creation in the 20th century. One policy change reduced theoretical incentives to work for families – the significant increase in social assistance (income support) rates for children implemented simultaneously in order to decrease severe monetary hardship and referred to earlier.

Figure 3.1 Generosity of Working Families’ Tax Credit compared to Family Credit



Source: Dilnot and McCrae 1999

The change from Family Credit to WFTC raised the amounts of in-work benefit awarded and lowered the tapers of withdrawal (from 70% to 55%). This increase in generosity enabled many recipients to no longer require means-tested help with housing costs, a factor in producing very high EMTRs under the Family Credit scheme. An extra element of tax credit was also available to meet up to 70% of childcare costs, to a stipulated maxima for lone parents and couples where both partners work more than 16 hours per week. This replaced a “childcare disregard” in Family Credit that suffered from very low levels of take-up. Figure 3.1 clearly shows the increased generosity of WFTC, with and without childcare credit, compared to the previous scheme.

Ex-ante simulations of the WFTC changes came up with a range of predicted employment outcomes, summarised by Blundell and Reed (2000) and shown in table 3.1.

Table 3.1 Predicted impacts of Working Families' Tax Credit

| | Number employed (000s) | % |
|---------------------------------------|------------------------|---------------|
| Sole parents | +24.7 to +34.0 | +1.6 to +2.2 |
| Women in couple – non-working partner | +11.0 to +14.6 | +1.3 to +1.8 |
| Women in couple – working partner | -20.1 to -29.0 | -0.6 to -0.8 |
| Men in couple – non-working partner | +13.0 to +16.8 | +0.4 to +0.5 |
| Men in couple – working partner | -10.5 to +1.8 | -0.3 to +0.05 |

Source: Blundell and Reed 2000, table 1³⁰

The comparative modelling suggested an “unambiguous positive impact” for lone parents and a sizeable impact on women in couples with a non-working partner (ie both positive job-entry effects). However, in couples where there were already two earners the general predictions were of a negative effect. There was some disagreement between different models on exits from work for men with a working partner. How were such predictions supported by subsequent evaluation and how do they compare to other previous research?

This potential unambiguous success of increased employment for sole parents has been born out in fact by a number of studies. Gregg and Harkness (2003) look at the overall policy package for lone parents only and show that employment rates raised by around 5% since 1999, with a 7% rise for those working over 16 hours a week. They found evidence of an increase in hours of work, “a consequence of lone parents shifting from short hours to over 16 hours a week in order to become eligible for tax-credits” (Gregg and Harkness 2003:27). They found no increase in hours for those working more than 16 hours a week:

These employment gains appear not to have come at the expense of lower earnings, and it appears that the least educated have not been more responsive to the reforms than better educated lone parents (Gregg and Harkness 2003:27)

Gregg and Harkness make no attempt to separately identify impacts from WFTC and other contemporaneous policy changes. Francesconi and Van der Klaauw (2004) focus on sole parents. They estimated a similar overall impact in additional employment of 16 hours a week and over – a 7% increase, but estimated this increase was mostly accounted for by work of 30 hours a week or more. They found an entry and retention effect produces higher employment rates. Next they found that mothers with young children aged under five years, raised their employment rate by 12%. Last, they found that sole parents benefited particularly from childcare credit provisions (especially those with pre-school children) for both job entry and retention:

More than 50% of the increased entry rate in eligible employment was attributable to lone mothers who also chose paid childcare arrangements,³¹ and the effect was stronger for mothers with pre-school aged children. Similarly, among single mothers who continued to be in employment, 50% of their greater post-reform labour market attachment is observed in conjunction with paid childcare services. (Francesconi and Van der Klaauw 2004:50)

Leigh (2004) looks across all eligible families and finds an overall positive effect on employment participation and hours worked. His results confirm those of Gregg and

³⁰ This summary brought together and compared three separate simulated predictions by Blundell et al. 1998, Gregg et al. 1999 and Paull et al. 1999.

³¹ Childcare assistance from WFTC was limited to formal paid childcare with registered providers, informal provision gave rise to no entitlement to additional WFTC subsidy.

Harkness (2003) and Francesconi and Van der Klaauw (2004) on sole parents, but also appear more positive for other groups than predictions suggested: “Across family types, the tax credit appeared to have increased hours worked for eligible single women, as well as for both men and women in couples” (Leigh 2004:18). Indeed, on hours worked, Leigh finds no evidence of bunching at the 16-hour entitlement threshold or at the other threshold in the system at 30 hours.³² This contradicts previous findings for Family Credit discussed below.

Brewer et al. (2003), using a structural modelling approach, also looked across all entitled groups. They confirmed the positive findings for sole parents, with a 4.7% increase in employment. They also found increases in employment of men in couples by 0.8% but a reduction of 0.2% for women in couples. Looking back at the predicted outcomes shown in table 3.1 above, they state: “Our results are the same in sign, although larger in magnitude” (Brewer et al. 2003:40). They estimate that increased social assistance rates for children aged under 11 years reduced WFTC work incentives. On a wider analysis of associated reforms alongside WFTC, the positive employment effect for sole parents remains (3.4%) but there is a negative effect on both men and women in couples of around 0.4%.

The evidence of WFTC on employment rates and hours points to gains for lone parents, with more mixed results for men and women in couples. There is some variance in the findings on hours. Other evidence of effects on earnings also indicate positive outcomes, contrary to the simplistic theory that EMTRs will encourage individuals and employers away from earnings growth. Leigh (2004) finds a pre-tax growth of 4% on average. Lydon and Walker (2004) also found wage growth:

The reform left those in receipt of the maximum FC [Family Credit] with unchanged incentives for wage progression and no significant change in their wage growth. While those who became eligible for WFTC and who had not previously been eligible for FC face greater incentives for wage progression and we do find a change of 2.7% – which is large in the light of the overall mean real wage growth of just over 3%. (p31)

In addition to the econometric modelling of labour supply, there is a steadily growing pool of evidence from surveys that help to contextualise the employment impacts of WFTC. WFTC is highly visible – only eight months after its introduction, three-quarters of lone parents and two-thirds of low- to moderate-income couples knew about eligibility for WFTC, and five times as many preferred WFTC to Family Credit than the reverse. WFTC also seemed to encourage uptake of childcare (McKay 2001). The evidence clearly shows that lone parents prefer to use WFTC alongside part-time work – with most (64%) working 16–29 hours a week. This compares with 32% of eligible non-recipients of WFTC working these hours (Marsh and Rowlingson 2002).

This suggests that many of this group are working near to what most people recognise as a ‘full-time’ working week and may not feel in need of a wage supplement that is anyway smaller than other entitlements. Eighty three per cent of those who had incomes above WFTC were working 30 hours a week or more. (Marsh and Rowlingson 2002:7)

Subsequent analysis in later years confirmed this (McKay 2003, Barnes et al. 2004). Over a year, half the lone parents moving into paid work had jobs 16–23 hours a week and 63% were receiving WFTC (McKay 2003). There was also a strong association among participation in the active labour market programme, moving into paid work of 16 or more hours, and WFTC. The levels of increased income from the

³² Both family credit and WFTC had higher rates of eligible credit for those working 30 hours or more to attempt to stop incentives to reduce hours to part-time work

combination of earnings and WFTC were often proportionally very high – around 50% of previous out-of-work income (McKay 2003).

How does this latest body of evidence relate to the previous policy of in-work transfers in the UK, namely Family Credit? Family Credit was more generous than its predecessor, Family Income Supplement. It was introduced to improve incentives to work by removing unemployment traps and aligning income definitions (used across the system) of means-tested provision for social assistance and housing allowances, in order to avoid EMTRs of over 100%, which existed previously.³³ Income became net of taxes, and eligibility moved from 30 to 24 hours of weekly work. For families with children, it was estimated that full-time, low-income earners would lose (primarily because gains from Family Credit were eroded by reduced housing allowances). Eligibility for Family Credit doubled previous Family Income Supplement estimates (Dilnot and Webb 1988). The first simulation of Family Credit effects on labour supply came in 1992 when the government reduced the weekly hours of eligibility from 24 to 16. Dilnot and Duncan (1992) showed that this change to Family Credit would encourage between 30,000 and 40,000 lone parents to enter employment. These estimates allowed no reduction for failure to take-up Family Credit and assumed the labour market was flexible enough to provide for “16 hours” jobs.

Bingley and Walker (1997) were early modellers of the effect of Family Credit on sole mothers, and early explorers of options that were later taken on with the introduction of WFTC. They found that for lone parents, increasing Family Credit levels *has a large impact on the probability of taking up part-time work and some impact on wanting (but not being able) to participate but essentially no adverse effect on the probability of working full-time.* (Bingley and Walker 1997:1387)

Much evidence about the impact and success of Family Credit came from surveys rather than from econometric modelling. Marsh and McKay’s (1993) analysis of a specific survey of low-income families between 1988 and 1991 (prior to the introduction of the 16-hour change) found that

Lone parents were, on average, about £30 a week better off in work and claiming family credit than they would have been out of work and claiming income support. The net gain amongst couples was less: about £18 a week, shared between two adults. However, to this extent, family credit springs the unemployment trap that might otherwise have left many families with higher incomes out of work. (p186)

They found that 45% of claimants were on Family Credit for all the intervening four years and that there was more of an argument for Family Credit to improve incentives for a step change from non-employment and unemployment into work than an “up-escalator”. They also found a minority of claimants where Family Credit actually prevented household worklessness; where, for example, two-earner couples lost one of their jobs and could rely on FC as a “parachute” to supplement the single earner. Family Credit was seen to operate as a strong source of employment retention in other surveys as well (Kempson et al. 1994).

Ford, Bryson and White (1997), looking at the period 1991 to 1995, found that “family credit ... had a positive impact on lone mothers’ employment. But these in-work benefits encouraged lone mothers to stick in low paid jobs for long periods” (p4). This latter finding is undermined somewhat by the later Lydon and Walker (2004) analysis cited above.

³³ Maximum EMTRs fell from 105% to 97% (Dilnot and Webb 1988).

Survey evidence also pointed out the limitations of Family Credit alone in moving lone parents into work. Even with such obvious success as incentives to take up employment, economic incentives were secondary to many lone parents:

*The majority of lone parents did not work and most of them were resigned to that position for the while, family credit or not. **At the margins of work**, as their children started school, the availability of affordable but preferably free childcare was crucial to whether or not they could move into range of family credit.*

[emphasis original] (Lydon and Walker 2004:189)

Later work on a cohort of lone parents between 1991 and 1998 confirmed the importance of employment and of Family Credit supporting employment, but also found that many claims for Family Credit came after re-partnering and were associated with the new partner's earnings (Finlayson et al. 2000). Other surveys have shown the importance of Family Credit to entering employment for lone parents:

Among lone parents who moved into work over the two years before the survey interview, 69% had claimed family credit at the same time they started their job and nine per cent claimed a few months later. Only 22% of lone parents moving into work got a job that did not involve claiming Family Credit. (Marsh et al 2001:11)

3.3.2 The United States of America

One federal level in-work transfer has operated across the USA since 1975 – the Earned Income Tax Credit (EITC).³⁴ This programme's most rapid expansion has occurred since the mid-1980s over a period in which there were significant political and fiscal restraints on social assistance safety net programmes. Original implementation in 1975 was temporary and very limited in scope; the programme was made permanent in 1978 but allowed to decrease in real value as tax codes were not indexed to inflation. Changes in 1986 increased it back to its original relative value and ensured its later indexation. Further changes in 1990 saw EITC reflect family size by increasing generosity for families with two or more children over single-child families. Reforms in 1993 made EITC a major initiative to make work pay and combat poverty: EITC was made more generous, increased more again for families with two or more children and extended to cover families without children (who represent a very small proportion of eligible people).

EITC is only payable to taxpayers with earnings and provides a refundable benefit of 40% up to an earnings threshold. It then phases this maximum credit out with a taper of 21%.³⁵ As US income taxation is family based (rather than using individual-based tax credits), EITC is carefully targeted at low-income families. EITC is payable on a regular basis at any point of time in the tax year but 99% of claimants wait until the end of the year to claim – indeed, loans and one-off purchases in many low-income household budgets are now predicated on an EITC claim producing a large one-off payment.

A number of states operate their own tax-credit schemes, for their own income taxes, alongside EITC. However, the generally low provision of American transfers and taxation means that the problem of very high EMTRs is largely avoided. Since the early 1990s, "Welfare Reform" – that is, the reform of social assistance paid to families with children, most of whom are sole parents – has led to many states adopting phased withdrawal of social assistance benefits as earnings rise. This enables the provision of more immediate incentives to work at the margins without having to wait until the end-of-year EITC. An additional major structural problem for

³⁴ For a full policy history of EITC see Hotz and Scholz (2003).

³⁵ Actually 21.06%.

low-income families in America is paying for healthcare coverage. Low-paid jobs rarely provide employer-subsidised health care benefits, but means-tested Medicaid entitlement is available alongside specific coverage for children in low-paid families not claiming welfare. This means that in some states, the combination of state-based rules, Medicaid and EITC withdrawal rates can lead to very high EMTRs.³⁶ Since 1996, individual states are also able to decide rules for eligibility for TANF and can count EITC as income or even notional income (if not claimed) if they wish (Hotz and Scholz 2003).

How has EITC influenced participation in employment? There is now a sizeable economic literature on the direct effects of EITC. The main original focus of 1980s and 1990s expansions of the programmes was to “make work pay” in relation to Aid for Families with Dependent Children (AFDC), which is mostly paid to sole parents. Much of the literature has therefore focused on the impact of EITC on sole-parent employment. Each change in the rules enables analysts to estimate the impact of the policy change.

Changes in 1986 were estimated to improve sole parent employment by 2.8% (from 73% to 75.8%) overall but to disproportionately improve employment for those with poor education by 6.1% (Eissa and Liebman 1996). This finding was supported by Dickert et al. (1995) who estimated that the subsequent 1993 reforms would increase sole parent employment rates by 3.3% (from 56.4%).

Other analysts have taken a longer view across EITC reforms on sole parent employment rates. Keane (1995) and Keane and Moffitt (1998) used a structural modelling approach to look at EITC and other programmes across time. They estimated that changes in EITC between 1984 and 1996 increased participation rates by 10.7% for sole parents (from 65.4%). Meyer and Rosenbaum (2001) found an increase of between 2.3% and 2.9% for the 1985–1997 period. The analysis by Hotz et al. (2001) used ex-AFDC administrative data – and thus mainly dealt with sole parents – and found a 6% increase in employment for families with two or more children.

The American evidence shows a similar unambiguous increase in employment for sole parents to that seen in British studies. However, the scales of effects should not be directly compared. Blundell and Hoynes (2004) note that the expansions to the in-work benefits in the US occurred at a time when the out-of-work benefits were being reduced but there was no corresponding reduction in the United Kingdom.

We now turn to see if there is evidence from EITC of changes in hours worked by sole parents or of reduced participation by other groups. There is, but there is also greater variability in results. Eissa and Liebman (1996) found no evidence of accompanying decreasing hours of work for the 1986 changes for lone parents. Keane (1995) and Keane and Moffitt (1998) found average increases in hours from 24.1 hours a week to 26.5. And, research cited by Hotz and Scholz (2003), by the US General Accounting Office (GAO) and the Department of Human Services, found reductions in hours of between 0.5% and 4.0% for sole parents.

There is greater consistency on findings of the effects of hours worked for couple families. Both the GAO and DHS research cited by Hotz and Scholz (2003) and a study by Eissa and Hoynes (1996) find reductions in hours. These reductions for married men were 2% (Eissa and Hoynes, 1998) and from 0% to 3.2% in the other studies. Reductions for married women were larger – between 0.8% and 6% and between 1.5% and 11.4% respectively.

³⁶ Wisconsin is an example (Evans 2001).

3.3.2.1 The New Hope programme

The New Hope programme was an employment-focused, experimental project during 1994 to 1998. It was not a “welfare-to-work” programme per se, but had a wider eligibility for low-income people regardless of whether they received welfare. The programme provided an in-work earnings supplement designed to raise incomes above the American poverty line, along with subsidised health insurance, childcare and job-search assistance. The programme operated for a fixed period of three years in two inner-city areas of Milwaukee, Wisconsin. Eligible people worked at least 30 hours a week and had incomes at or below 150% of the federal poverty line. All participation was voluntary and random assignment into the programme produced identical treatment and control groups.

Bos et al. (1999) state that after two years, compared to the control group, New Hope halved the number of those who had never been employed from 13% to less than 6%. Work entry improved, participants who were not employed full-time at random assignment worked in 5.5 out of eight quarters compared with 4.8 quarters for the control group. The programme increased average two-year earnings by 13% which, boosted by the earnings supplement, resulted in a substantial income gain of \$2,645 over the two-year follow-up period. However, to a third of the participants in work at the point of random assignment the programme produced modest reductions in hours worked and earnings. These participants were less likely to work more than 40 hours a week and had a reduction of income by 7.5%. The five-year impacts of New Hope, impacts that continued after the programme had finished, are more focused on child and family development. Huston et al. (2003) reported that New Hope participants worked and earned more, but those effects tended to last during the three years of the programme only. For Hispanic parents and others with moderate barriers to work, the impacts lasted throughout the five-year evaluation period. However, some of these impacts were linked to the provision of community service jobs within the fixed three years of the programme. In the fifth year, 26.6% of participants earned more than \$11 an hour, compared to 20% in the control group.

3.3.3 Canada

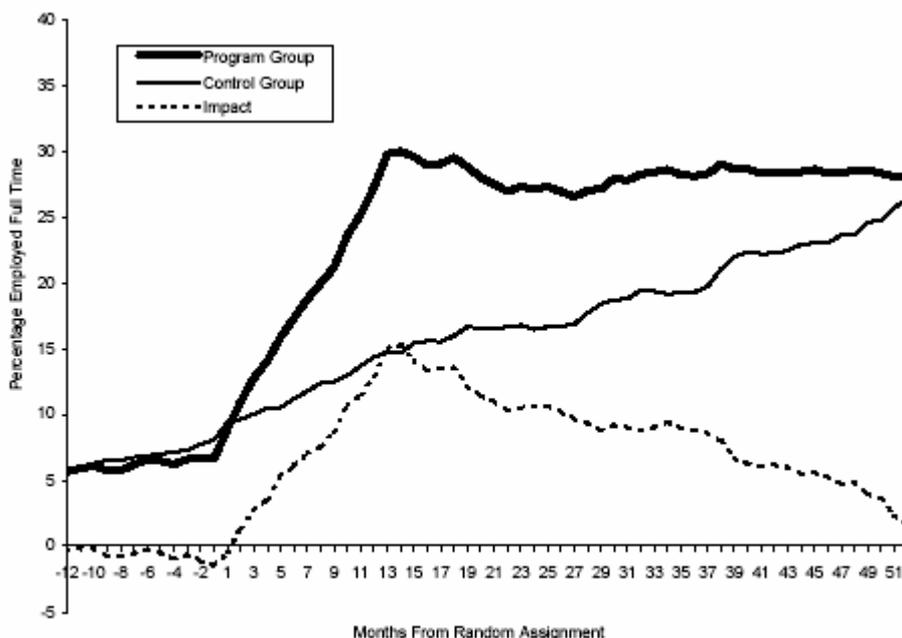
The third country from which specific evidence is taken is Canada. We look at evidence from two programmes: an experimental, demonstration earnings supplementation programme for social assistance claimants, and a federal programme of tax credits.

3.3.3.1 The Self-Sufficiency Project

The Self-Sufficiency Project (SSP) provided financial in-work payments to sole parents who had been claiming social assistance (Income Assistance or IA in Canada) for 12 months or more. It operated in two Canadian states, British Columbia and New Brunswick, and offered a maximum of three years’ time-limited financial supplements to full-time work of 30 hours or more. The financial incentives were substantial. SSP payments equalled half the difference between a participant’s earnings and an “earnings benchmark” (\$30,000 in New Brunswick and \$37,000 in British Columbia in year one). Other forms of income had no effect on SSP, with the outcome that SSP payments roughly doubled the earnings of many low-wage workers (before taxes and work-related expenses). The programme was voluntary but all participants had to take advantage of the offer within one year of entering the programme. A person could sign up for the supplement if they found full-time work within the year after random assignment. A person could collect the supplement for

three calendar years from the time they began receiving it, as long as they were also working full-time and not receiving IA. After beginning SSP receipt, participants could return to IA as long as they gave up SSP and met the IA eligibility rules.

Figure 3.2 Self-Sufficiency Project: percentage employed full-time, by months after random assignment



Sources: Calculations from baseline survey data and 18-month, 36-month, and 54-month follow-up survey data.

Note: "Employed full time" is defined as working 30 hours or more in at least one week during the month.

Source: Michalopoulos et al. 2002:1

The final report of the impacts of the programme (Michalopoulos et al. 2002) showed that SSP increased employment, earnings and income levels, and reduced welfare use and poverty (measured according to the Canadian low-income threshold, discussed in section 4 below). Within one year of random assignment, SSP participants were twice as likely to work full-time compared to the control group. This effect on employment continued to be strong through most of the follow-up evaluation period (54 months). Earnings were thus increased by more than 20% compared to the control group. Over the entire follow-up period, programme group members had on average \$6,300 more in combined income from earnings, IA payments and earnings supplements than control group members.

Figure 3.2 shows the effect of SSP on full-time employment participation. During the first year (months 1 to 12) employment grew rapidly as participants had to find full-time work to receive payments. Control group employment, slightly ahead before random assignment, grew less quickly. The difference was a 15% increase in employment due to SSP at 13 months. This difference declined over the rest of the evaluation period – thought to be for three reasons. First, there was no ability for the programme group to claim after a year. Second, SSP may have encouraged people to bring forward employment entry, with a subsequent effect on job retention. Third, the control group catch up – as one would expect from normal movements into work from social assistance.

The SSP effect of increasing full-time work was largely a job-entry effect, rather than affecting hours of work at the margins of 30 hours a week (Michalopoulos et al. 2002,

table ES1). Card et al. (2001) also demonstrate that SSP did not have an adverse effect on wage growth, compared to the control group:

SSP leads to wage growth among the induced program group that is very similar to the growth experienced by people who would have left welfare and entered work without the program's incentive. (p34)

3.3.3.2 National Child Benefit and Canadian Child Tax Benefit

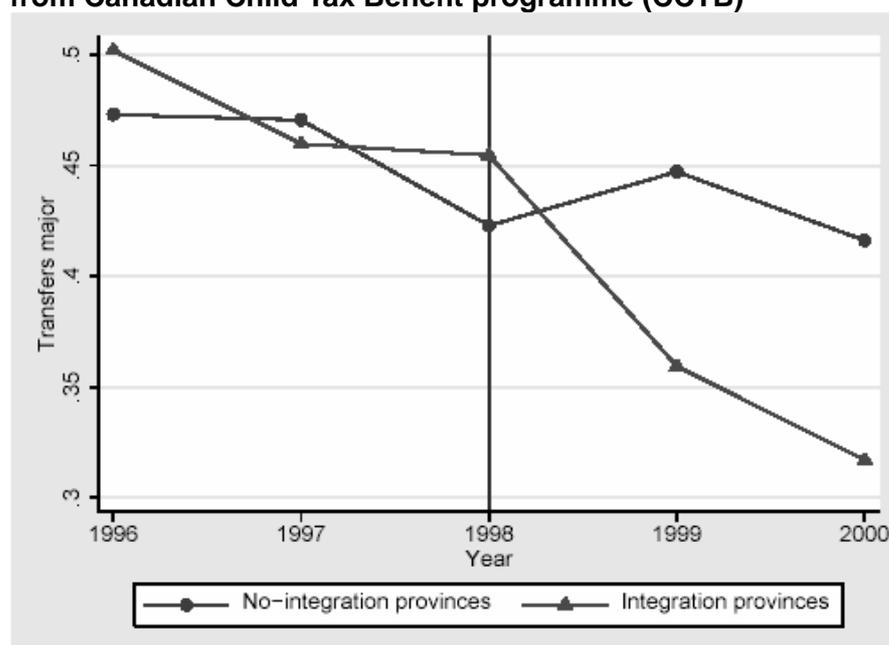
The Canadian system of support for families with children, in- and out-of-work, has been integrated and harmonised, but allows each province to adapt its own social assistance systems around a unified system of support for children. The National Child Benefit (NCB) programme was introduced in July 1998 as a component of the Canada Child Tax Benefit (CCTB).

NCB is actually two programmes, a federally provided, refundable tax-credit called the National Child Benefit Supplement (NCB Supplement) and provincially provided Social Assistance. The stated goals of NCB are to reduce child poverty, promote attachment to the labour force and reduce overlap between federal and provincial initiatives (Department of Finance 1997).

The level of transfers for each family is determined by family income and number of children. Benefits are paid quarterly, from July. The family income used to determine benefits comes from amounts reported on the tax filing of the previous calendar year, so benefits starting in July 1999 apply to income from the 1998 calendar. Families must apply to receive benefits; applications are typically given to parents with birth registration and other government documents at the hospital when the child is born. The annual benefit amount in 1998 was \$605 for the first child, \$405 for the second, and \$330 for the third and additional children (Canadian dollars). The benefits are reduced with family income, starting at a threshold of \$20,921 (for 1998). The claw-back rates were set such that the benefit would be reduced to zero when income reached \$25,921 for all family sizes, and thus the incentive to work (so long as income is less than \$25,921) differs sharply by the number of children. In the first year CCTB increased spending on transfers to families with children by 32%; this was almost entirely from the NCB Supplement in-work payments.

The federal system of NCB Supplement was able to be integrated with provincial social assistance programmes by deducting the supplement from social assistance payments dollar for dollar. The savings to social assistance spending produced were used for programmes to assist low-income families and for provincial income supplements. Three provinces (Newfoundland, New Brunswick and Quebec) chose to not integrate the supplement with their social assistance benefits, thus blunting incentives to work.

Figure 3.3 Results on employment (earnings as the major source of income) from Canadian Child Tax Benefit programme (CCTB)



Source: Milligan and Stabile 2004, figure 6

The different provincially provided initiatives comprise the second part of the NCB programme. These include services in both kind and transfers – provincial tax credit programmes. Child-care subsidies and health promotion programmes are the most common services, while tax credits take the form of straight transfers or earned income credits. These provincial credits varied the incentives to work across Canada. Overall, the NCB programme provides clear incentives for families on social assistance to enter work by partially replacing social assistance with a net benefit that is received only if they are working. In addition, provincially run earned income supplements provide more incentive to join the labour force in some provinces. Of course, as has previously been argued, work incentives at the margin are less clear and those already working may face higher marginal tax rates and choose to work less.

The provincial differences in policy provided Milligan and Stabile (2004) with the ability to model estimates of employment effects as a “natural experiment”.³⁷ Their study compared integrated and non-integrated provinces between 1996 and 2000 and estimated significant differences in employment effects after the introduction of CCTB in 1998 in those provinces that integrated CCTB and optimised job-entry incentives. Figure 3.3 shows the differences between the proportions of families who have earnings as a major income source (1996–2000), and the step change in 1998 between provinces that integrated CCTB and those that did not. Milligan and Stabile (2004) report their findings as

a large, statistically and economically significant effect on social assistance take-up [meaning ‘use’ in this instance] and work. The magnitudes of the effects we estimate are within the range of those found in the EITC literature in the United States (p27)

In addition, they find smaller effects for provincial level incentives.

Government evaluation evidence of the employment outcomes of CCTB published to date is limited to descriptions of inputs and outputs, and of implementation in annual government reports and in a substantial body of literature that discusses the policy

³⁷ See our accompanying methodology review (Bryson et al. 2006) for further discussion of such an approach.

design and prospects for reform. We do not cover this literature in any detail because it is mostly descriptive and discursive rather than based on evaluation that allows generalisation. Interested readers are referred to the following main sources (Department of Finance 1997 and Battle and Mendelson 2001). There is a separate evaluation for the indigenous communities in Canada that may be of relevance to concerns for Māori and Pacific peoples in New Zealand.³⁸

3.4 Overview

This section covers a wide body of evidence for consideration on employment outcomes from programmes similar in nature to IWP and WFF. For ease of reference it brings together tabular and bullet point guides to the international evidence.

Table 3.2 shows the studies that can be referred to in future discussion about the potential of WFF and its evaluation and to contextualise emerging findings from WFF. We have listed only those studies that seek to estimate some net employment effect independent of individual and other characteristics. We have not included many of the British descriptive, survey-based studies that provide some essential context to these findings.

Evidence from across the UK, the US and Canada shows that in-work payments increase participation in the workforce for families with children.

Across the UK and American studies it is clear that job-entry incentives are strongest and work best for sole parents.

There is mixed evidence on the effect of reduced employment (hours or work) for second earners in two-earner couple households. The most consistent finding across the UK and US is that there are small but significant decreases in work participation for second earners, usually women.

The job-entry effect is also strongest for those who are in workless households. Studies that focus on social assistance recipients find consistent improved job-entry effects. Evidence is often curtailed, however, because of time-limited interventions based on an experimental evaluation.

For those engaged in small hours of work in combination with social assistance, there is an increased hours' effect in most studies that specifically looked for such an effect.

Increases in payments at the margins of social assistance relative to in-work transfers seem to have a stronger effect than any secondary incentives within in-work transfers to encourage longer hours of work.³⁹

³⁸ See Indian and Northern Affairs Canada (nd) *The First Nations' National Child Benefit Reinvestment Initiative – Progress Report for the Year Ending March 31, 2002*. <http://www.ainc-inac.gc.ca/pe-cp/brie.html>

³⁹ Most in-work transfers operate on an income and transfer status (ie by calculating earnings and not being on social assistance) rather than any definitions of hours. Only the British scheme has a step change in generosity at a “full-time” definition of 30 hours of work, and this in part operates because eligibility begins at 16 hours a week, an obvious definition of “part-time” work. Most British evidence points to cross-sectional profiles showing a lot of bunching of claims at the 16 to 20 hours' level, but this usually reflects the large and growing proportions of sole parents who claim in-work transfers, especially those with young children and hence the most constraints on full-time work. In the econometric modelling of employment impacts of the British scheme, the part-time effect of reducing hours has been shown to have had little effect to date.

Table 3.2 The employment effects of refundable tax credits and in-work cash transfers to families with children: UK, USA and Canada

| Study | Country | Scheme | Coverage | Methodology | Main findings | Caveats |
|---------------------------------------|---------|-----------------------------------|---|--|--|--|
| Blundell and Reed (2000) | UK | WFTC | All families with children | Comparison of predictive econometric models | Increases to sole parent, single earner couple employment, decreases to dual earner households | Predictive modelling |
| Brewer et al. (2003) | UK | WFTC | All families with children | Structural model | Find similar pattern to Blundell and Reed (2000) but larger net effects | Assumptions required for structural modelling |
| Gregg and Harkness (2003) | UK | WFTC plus other aspects of reform | Sole parents | Propensity score matching from labour force survey | Increases of sole-parent employment linked to reforms of tax credits and other programmes | Aggregate policy change decomposition to find a net effect of tax credit effects |
| Francesconi and Van der Klaauw (2004) | UK | WFTC | Sole parents | Econometric regression modelling | Increases of sole-parent employment from both entry and retention, importance of childcare, strong effects for those with preschool children | Limitations of survey data |
| Leigh (2004) | UK | WFTC | All families with children | Econometric regression modelling | Increase in employment for both single-earner and two-earner households | Limitations of survey data |
| Keane and Moffitt (1998) | USA | EITC | Sole parents | Structural model | Increase in employment rate and increase in hours worked | Social assistance coverage entitlement reduced at same rate |
| Eissa and Liebman (1996) | USA | EITC | Sole parents | Econometric regression modelling | Increases employment rate and statistically significant increase in hours worked | Social assistance coverage entitlement reduced at same rate |
| Dickert et al. (1995) | USA | EITC | Sole parents | Econometric regression modelling | Increases employment rate | Social assistance coverage entitlement reduced at same rate |
| Meyer and Rosenbaum (2001) | USA | EITC and state level income tax | Sole parents | Econometric regression modelling | Increases employment rate | Social assistance coverage entitlement reduced at same rate |
| Eissa and Hoynes (1996) | USA | EITC | Married couples | Econometric regression modelling | Small increase in men's employment rate and hours of work and larger decrease in women's rate and hours. | Social assistance coverage entitlement reduced at same rate |
| Hotz et al. (2002) | USA | EITC | All families with children – California | Econometric regression modelling | Increase in employment rate. Larger increases in employment for families with more than one child | Social assistance coverage entitlement reduced at same rate |

| Study | Country | Scheme | Coverage | Methodology | Main findings | Caveats |
|---|----------------|----------------------------|--|--|--|--|
| Bos et al. (1999) Huston et al. (2003) | USA | New Hope | All low income in areas of Milwaukee | Random assignment experiment | Increased employment of those out of work but reduced hours and employment of those in work. | Time-limited experiment |
| Michalopoulos et al. (2002) | Canada | Self-Sufficiency Project | Sole parents on social assistance in two provinces | Random assignment experiment | Increased employment entry from social assistance. Differences narrowed over time due to time-limited intervention and control group "catching up". | Time-limited experiment |
| Milligan and Stabile (2004) | Canada | Canadian Child Tax Benefit | All families with children | Econometric regression analysis based on provincial differences in practice (natural experiment) | Provincial differences in implementation of CCTB led to higher employment rates in those provinces that integrated CCTB to maximise returns to employment. | No differentiation between and other parents |

3.4.1 How important is the availability of in-work payments in comparison with other influences on the decision to move into employment?

There are several ways of considering this. If we look at structural policy factors, such as the design of the overall income transfer schemes in a country, there is real reason to believe from the American example that “push” factors, denying and reducing entry into social assistance, alongside increases in mandating job search requirements and of sanctions, have a separate effect on employment entry. Such effects, when combined with in-work payments, are crucial to welfare reform in the USA (Blank 2002). However, at the individual level and in the UK (which has a less mandatory and restrictive regime of social assistance), the longstanding and consistent findings from survey evidence in Britain show in-work transfers can clearly tip the balance in decisions to enter work (for instance, Marsh and McKay 1993). However, it is also clear from this evidence that other concerns, such as the quality, availability and affordability of childcare, what is best for children and “timing it right”, are also crucial. It is additionally important to link the decision to “take up” entitlement to in-work transfers to the decision to enter work. UK evidence is that clarifying the actual and potential position of being “better off” in work to social assistance claimants is extremely beneficial (Evans et al. 2003).

3.4.2 Do in-work payments alter people’s location decisions (eg moving from low- to high-employment areas)?

Across the evaluation literature there are no studies that take mobility into account in evaluating in-work transfers. Many studies look at the incentives to move between locations with different social assistance generosity (Moffitt 1992, Meyer 2000, for instance). The results from this analysis, where there are substantial differences in generosity and rules, is by consensus, “found rather weak or inconsistent” (Meyer 2000:2). State-based differences in American and Canadian in-work transfers that operate alongside consistent federal rules *could* be, in theory, discernable as having an effect in a properly estimated study. But underlying differences in migration to take up jobs in any case, and the selective characteristics of such movers, are likely to be more important than incentives from in-work transfers. In short, it is as yet an unknown area, but in a nationally consistent transfer system with no location variation in generosity or design, there is little in the New Zealand scheme to suggest that effects would be significant.

4 Living standards and poverty

4.1 Introduction

The WFF reforms aim not only to increase the employment rates of low-income families with children, but also to lower child poverty. The key contributing factors to any outcomes of higher living standards and lower poverty are fourfold:

1. higher income through the Accommodation Supplement to assist with housing costs for those with unaffordable rents
2. improving living standards for children in out-of-work families through improved rates of payments for children
3. higher incomes for those with long-term sickness through encouraging work during periods of receipt of invalid's benefit
4. higher incomes in work for low-earning working families with children.

There are three important points to note when looking across other countries to assess evidence on the impact on poverty and living standards.

First, WFF is potentially interactive and cumulative, with some families or individuals receiving more than one element at any point in time.

Second, there are static and dynamic aspects in WFF outcomes on incomes. Some improvements will occur without any change in behaviour or status, such as effective lower housing costs for those who qualify for the Accommodation Supplement, in-work transfers for families already in work on low earnings and increased out-of-work social assistance income for families with children. Other income impacts occur after a change of status or behaviour – linked to moving in to employment for people claiming the invalid's benefit and for those entering work, increasing hours or remaining in work as a result of in-work transfers.

Third, income changes will partly depend on system performance on, for instance, levels of “take-up” discussed in section 2 and employment participation changes discussed in section 3.

The above points are important to take into account when considering the two main questions that underlie the review in this section:

- Do welfare reform initiatives or welfare policy changes broadly analogous to the WFF package influence income, living standards and/or measures of poverty?
- Do some groups benefit more than others from welfare reform initiatives or welfare policy changes that are broadly analogous to the WFF package?

Two large bodies of evidence seem most appropriate when looking at policy impacts from programmes broadly analogous to WFF: evidence from static international comparative profiles of the incomes of those receiving transfer packages; and evidence from national-level evaluations of outcomes from programmes that have introduced in-work transfers. The review is concentrated on these areas. The outcomes of transfers for housing costs and of work incentives for long-term incapacitated people have not only smaller literatures but are far less easy to generalise from because of underlying housing finance structures and because invalidity definitions and recipient groups differ so much between countries. The strongest body of evidence and the one most easily generalised from is for families with children, which also will be the major element of expenditure and potential income impact in WFF.

When discussing income outcomes for families with children we need to look at living standards *and* poverty. International comparison of living standards requires a consistent comparative benchmark. This tends to be *purchasing power equivalent budget standards*, such as the World Bank poverty lines of \$1 and \$2 a day (used mostly in developing countries to assess basic subsistence standards of living), or *relative poverty lines* based on a point in the income distribution (usually a percentage of mean or median income), which are more commonly used to compare industrialised economies with significant levels of state transfers. These last measures form the vast majority of evidence relevant to WFF.

In national-level studies, other measures of living standards are often used as instead of, or in addition to, relative poverty lines. This often reflects the “mismatch” between relative poverty measures and deprivation, with a substantial proportion of those defined as poor by relative measures not reporting deprivation and vice versa (see Perry 2002). Alternatively, national concerns may be focused more on a deprivation-based poverty measure, as in the US, and rarely use relative measures. Recent research in New Zealand has used both approaches, with trends in changes in relative poverty between 1997 and 2000 shown by Waldegrave et al. (2003) and through the development of the economic living standard index (ELSI).

This section therefore divides the literature into two parts:

1. cross-national studies of the impact of transfers on poverty and, in particular, child-related transfers on child poverty
2. national-level studies from the UK, USA and Canada to look at evidence on available poverty standards, relative or other.

4.2 International comparisons on the impact of family transfers on child poverty

International comparison of transfer policies and other programmes for families with children has three main literatures. First, the description of programmes and their intended effects, and collections of national studies – see, for example, the excellent volume edited by Bradshaw (2003). Second is the literature on policy design and its illustration using consistent “model families” to show the composition of income packages and other programmes available to low- and average-income families. These are invaluable as illustrative guides to policy design and in assessing the potential value and impact on families with children (see Bradshaw and Finch 2002, OECD 2004 and Kilkey 2000 for lone parent families). The advantage is that model family comparison can be comprehensive across the whole range of programmes in a package and can use in-built assumptions about characteristics of families, such as the nature and degree of disability, often not found in survey data. The third approach uses secondary analysis of survey data to estimate impacts of transfers and other programmes on income distribution and poverty. This literature is focused on, because it provides more accurate aggregate profiles across countries as well as the ability to decompose impacts according to different policy and non policy-related effects.

There are some conceptual and methodological difficulties in consistently measuring incomes of families with children between countries. These difficulties feed into comparison of impacts of transfers on the income distribution and of poverty. First is the question of whether provision of services to families with children in particular, is made through transfers or through “benefits in kind”. Transfer packages for families with children, for instance, often look similar in aggregate, with means-tested social

assistance, universal family allowances, in-work transfers and maternity and paternity provision. But the balance and interaction of the total package will reflect assumptions about other forms of provision and services. For instance, childcare services can be provided at subsidised costs, or parents may alternatively be given transfers, tax allowances or other direct income to pay for them. If one measures purely income transfers, country A (which has only social assistance and means-tested transfers for children but pays a large proportion of the costs of childcare for low-income families), may spend more than country B (which provides lower transfers but provides free full-time childcare provision for all three-year-olds). Country A would appear therefore to have a more positive impact on child poverty using income measures alone, but this may not accurately reflect the total impact of social policy on children and child poverty as country B may well have similar or lower poverty rates but spend less on transfers.

Even if the issue of benefits in kind is ignored, there are still considerable difficulties in dealing solely with direct income-related transfers and taxes. There is direct fiscal targeting to children but often children will also benefit from incomes provided to other members of the family/household. For instance, unemployment benefits to the unemployed, of whom many may be parents, and even pensions to co-resident elders will have impacts on children's income and poverty risk. Demographic profiles are thus crucial to understanding how poverty and fiscal interventions affect the income distribution. This is not only true when comparing countries with different demographic profiles – such as northern and southern European countries or east Asian and European countries – but also when trying to understand within-country distributions. Significant differences in household size and composition between ethnic groups are potentially important for profiles of children of Māori, Pacific Island and Asian families in New Zealand but our knowledge of such particular demographic profiles is too limited to be certain.

Recent cross-country micro-simulation analysis has attempted to look at the European Union 15 (EU15), to unpick some of these measurement and analytical problems (Corak et al. 2005). This firstly analyses the age incidence of taxes and transfers and how far these lifetime profiles are targeted at low-income families

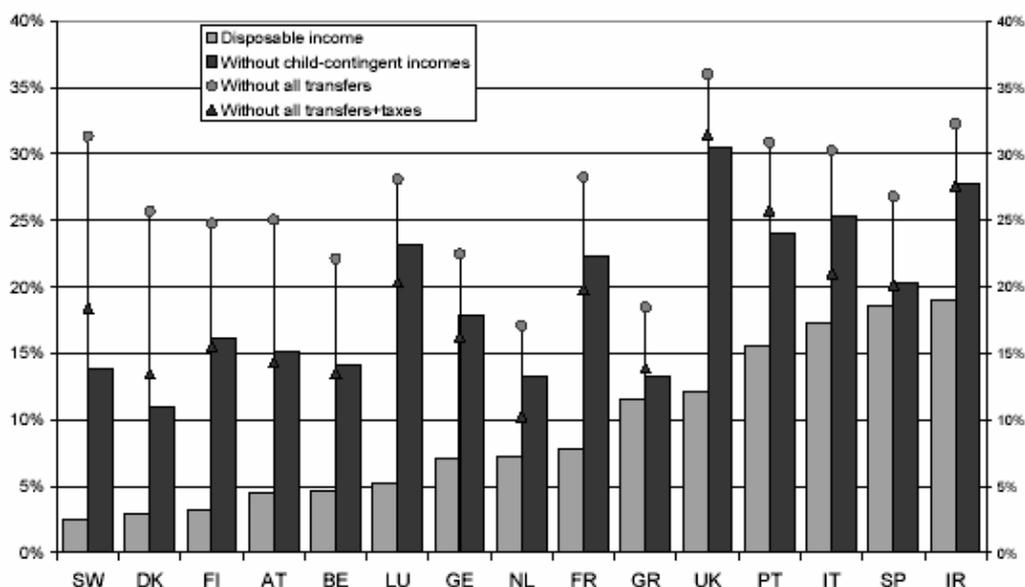
... in most countries children receive a higher proportion of their share of household income from government transfers than young or middle-aged adults, but this is not universally the case. ... Low income children receive 60% to 80% of their incomes from transfers in all countries with child poverty rates lower than 10%. But the proportion is much lower, 20% to 30%, in countries with higher child poverty rates. (Corak et al. 2005:34).

The analysis of Corak et al. (2005) goes further by subsequently identifying and adjusting for direct child contingent transfers and taxation (only possible through micro-simulation). They are thus able to identify net fiscal effects for children alone, "In all but five countries child contingent spending is higher for low income children than for the average child" (Corak et al. 2005:35), and to identify countries that rely on tax concessions rarely focused on low-income children and that are thus non-redistributive. This enables a comparison of the direct child contingent spending with the needs of children – how much of the financial burden of childhood is met by state transfers and taxes – and a comparison with other, non-tax and transfer spending. Only after such comparisons do Corak et al. assess the relationships between government programmes and child poverty profiles.

We find that poverty rates would be much higher in all countries if there were no child contingent transfers being made. But countries with the lowest poverty rates are those in which children benefit a good deal from other transfers not necessarily directed to them. (p35)

Figure 4.1 shows the Corak et al. results for four measures of income – disposable income after all taxes and transfers, without child-contingent incomes, without any transfers and without any transfers or taxes.

Figure 4.1: Child poverty rates in EU15 2001 on different assumptions about transfer and taxation



Key:

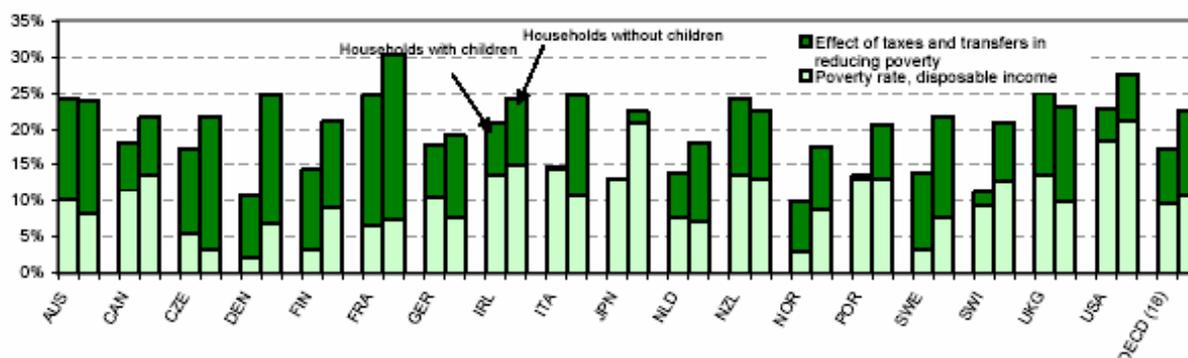
SW – Sweden, DK – Denmark, FI – Finland, AT – Austria, BE – Belgium, LU – Luxembourg, GE – Germany, NL – Netherlands, FR – France, GR – Greece, UK – United Kingdom, PT – Portugal, IT – Italy, SP – Spain, IR – Eire

Source: Corak et al. 2005, figure 7

Such an approach, and the ability to use micro-simulation to decompose tax and transfer programmes across countries, is unique and points to more consistent and nuanced comparison of effects of tax and transfer programmes on poverty in the future.

Förster and Mira d’Ecole (2005) also studied changes in poverty and income inequality in the late 1990s. They looked separately at the effects of demographic change, especially sole parenthood, and of employment change, especially maternal employment. Their cross-sectional figures for 2000 are shown in figure 4.2. They show a wider range of countries than the analysis by Corak et al., as they are based on all participating OECD countries including New Zealand. The light bars in Figure 4.2 represent the final poverty rate measured after taxes and transfers; the dark bar shows the effect of taxes and transfers. The total height of each bar is the pre-transfer and tax poverty rate. Förster and Mira d’Ecole (2005) note that, on average across the OECD, households without children are lifted out of poverty most by taxes and transfers – “more than half” compared to 44% of households with children. They record Japan, Italy and Portugal as especially low in the poverty-reduction effect of transfers to children. They also confirm a part of the Corak et al. analysis that the tax and transfers given to children do not give households the amount that reflects children’s needs in the equivalence scales used to make incomes comparable by household size and structure.

Figure 4.2 Poverty rates before and after taxes and transfers – households with and without children



Key:

AUS – Australia, CAN – Canada, CZE – Czech Republic, DEN –Denmark, FRA –France, GER –Germany, IRL –Ireland, ITA –Italy, JPN – Japan, NLD – The Netherlands, NZL – New Zealand, NOR – Norway, POR – Portugal, SWE – Sweden, SWI –Switzerland, UKG – United Kingdom, USA – United States of America

Note: Left column shows households with children; right column shows households without children.

Source: Förster and Mira d'Ecole 2005, figure 20

Chen and Corak (2005) have looked across 12 OECD countries to examine the impact of government transfers on changes in child poverty since 1990. They decompose changes in poverty into those due to demographic change, labour market changes and changes in government transfers. They find,

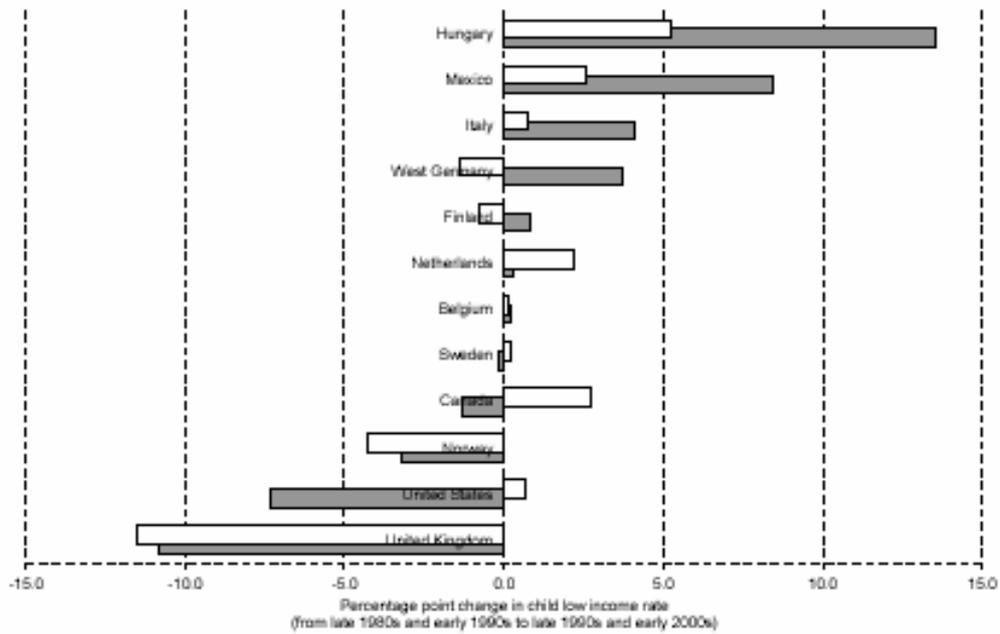
It is changes in labour markets and government support that are the major causes of changes in child poverty. ... In countries facing severe economic crises it does not appear that the amount of income transfers from the state increased in a way to cushion children from these changes and put a backstop on their risk of low income. Indeed, just the opposite appears to have occurred in countries experiencing the largest increases in child poverty. (Chen and Corak 2005:38).

Chen and Chorak analyse different profiles of economic growth,

Reforms to income transfers intended to increase labour supply and labour market engagement may or may not end up lowering the child poverty rate. In the United States important structural changes to income support policies are closely wrapped up with significant economic growth in a labour market with a large service sector, and are associated with a country that had a very high rate at the beginning of the period. In the Netherlands, on the other hand, they contributed to a rise in child poverty. At the same time increases in the level of support have also been shown to be a central ingredient in lowering the child poverty rate, not only when it is very high but also when it is already quite low. (2005:38)

Figure 4.3 summarises the Chen and Corak findings (the dark horizontal bars represent the actual change in child poverty and the white bars show the changes that would have occurred, holding demographic and labour market factors constant). The chart provides data for countries other than the 12 OECD countries examined. In Hungary, Mexico and Italy, transfer changes contributed to increased child poverty, and in West Germany and Finland poverty increased but transfers could not counter the impact of labour market and demographic change. In Norway and the UK, changes in transfers are the major reason for declines in child poverty.

Figure 4.3 Changes in child poverty and the impact of changes in government transfers



Note: Canada findings may reflect changing data sources over time.
 Source: Chen and Corak 2005, figure 5

These three comparative overviews are some of the most recent evidence available. The wealth of older evidence and comparison is not covered here. Readers are advised to look at Oxley et al. (2001) and Atkinson et al. (1995) for summary cross-sectional profiles from the 1980s to mid 1990s.

Figure 4.4 Impact of taxes and transfers on child poverty rates



Source: UNICEF 2005, figure 9

It is, however, worthwhile highlighting the most recent cross-sectional overview from UNICEF, into which Corak et al. and the Chen and Corak analysis have fed (UNICEF 2005). This shows the aggregate impact of taxes and transfers (see figure 4.4) using 50% of median income as the poverty line. The darker horizontal bars in figure 4.4 give the final poverty rate and the lighter bars the original poverty rate before transfers.

Poverty is not just cross-sectional. Persistent poverty is a greater concern for both its short and long-term consequences. Comparative longitudinal studies are rare, Duncan et al. (1993) and Bradbury et al. (2001a) being the best with data coverage and periods. These papers do not directly discuss the impact of taxes and transfers on poverty dynamics, but some of the conclusions qualify previous findings about cross-sectional impacts and time series. For instance,

We do not find any evidence that the less-regulated United States economy is associated with greater mobility by children across the income distribution or by movements in and out of poverty. Indeed, in some respects mobility in the USA appears to be less than in countries such as Britain and Germany. (Bradbury et al. 2001a:131)

One way to further understand such differences is to look more closely at particular programme outcomes in such countries.

4.3 Poverty outcomes from UK, USA and Canadian reforms

4.3.1 USA

Studies of poverty within the US tend to use variants of an official poverty line originally developed in the early 1960s by Orshansky, a government economist working in the Social Security Administration. (See Fisher 1992 for how the measure was developed and subsequently price-indexed and amended, and Citro and Michael 1995 for fuller discussion of its adequacy against other forms of poverty measures.) The poverty threshold was estimated using food consumption patterns of low-income households in 1955 from US Department of Agriculture (USDoA) survey data. Orshansky based her estimations on several different family types but used an austere food plan, the so-called “Economy Food Plan”, which represented the lowest cost plan from USDoA figures based on “temporary or emergency use when funds are low”. Orshansky then used a common multiplier of three to reflect spending on other essentials such as housing, clothing, utilities, etc. This multiplier was based on consumption patterns across the whole population, rather than for poor families. Later evidence showed that this multiplier was too low (Citro and Michael 1995).

Orshansky produced a number of lines for households of various types – working age, elderly and female-headed – and according to numbers of children and adults present and for farm and non-farm households. Over time the number of different thresholds has decreased and price indexation has occurred somewhat differently, but the essential basis of the 1965 line remains.

In the language of poverty measurement, the United States has an “absolute” poverty threshold that is updated for price changes but not for real growth in consumption. Thus, the poverty line no longer represents the concept on which it was originally based – namely, food times a food share multiplier – because that share will change (and has changed) with rising living standards. Rather, the poverty line threshold reflects in today’s dollars the line that was set some 30 years (sic) ago. (Citro and Michael 1995:25)

The key question for WFF is thus, “How have American policies that resemble WFF changed poverty, measured in this way?”⁴⁰ Interpretation of the poverty impact of such policies, however, needs to be carefully contextualised. We return to look at the programmes outlined in section 3, and this consistency allows us to reflect on the trade-off between clear evidence of employment gains that lead to associated poverty gains and other outcomes that lead to marginal or poor poverty outcomes.

4.3.1.1 The Earned Income Tax Credit

It is important to repeat the caveat that EITC does not operate alone in producing entry into and increased retention of employment, but alongside changes to underlying social assistance that have severely curtailed entitlement and access and have imposed stricter mandatory work conditions and sanctions. This means the aggregate effects of EITC and “welfare reform” will combine the “push” effects of welfare reform mentioned in section 3, which may not only push people into employment and thus increase incomes and reduce poverty but may also push those out of work out of entitlement and thus deeper into poverty. Careful consideration must therefore be given to average poverty “outcomes” because there are gainers and losers, and to the knowledge that headcounts alone are less helpful in understanding aggregate outcomes than changes to poverty gaps. However, where possible, estimates of the “pull” effects of EITC will be “solely” concentrated on, in order to more accurately reflect interests in the reductions in poverty from gains to employment.

EITC is only available to low-income families that work and pay tax, and is thus targeted at low-income families with children, subject to tax-filing and to having employment. Scholz and Levine (2001) find that over 60% of EITC payments went to those with original incomes below the American poverty line and that 50% effectively reduced poverty gaps. Leibman (1997) has also shown that EITC helped offset the growing income inequality between high- and low-earner households by reducing the decline in income share of the bottom quintile by 29% and by 9% for the second quintile.

The aggregate poverty impact of EITC was highlighted by the Council of Economic Advisers to the American president (CEA 1998), and estimates that EITC lifted increasing numbers out of poverty between 1993 and 1997 – from 2.1 million to 4.3 million in the later years. Overall the impact on poverty of EITC has been rarely studied in recent years but there has been a large body of evaluation of the combined impact of welfare reform, EITC and other contemporary measures such as rises in minimum wages in the 1990s. This literature is not covered in great detail because the overall package of policies is very different from those put forward by WFF, despite common elements such as EITC and in-work payment.

Any overview of recent American policy change in the area should note that one of the main driving forces was to “end welfare as we know it”. The major emphasis on evaluation has been on caseload reduction and employment effects. Unlike British and New Zealand approaches there is no overall objective related to child poverty. This means that evidence of reduced participation on social assistance and increased employment are often taken by American policy makers to be enough to justify the reforms.⁴¹ Looking back at the period Blank and Ellwood (2001) state:

⁴⁰ The limitations of this question, however, do suggest the potential importance of further secondary analysis of US data to show policy impacts on poverty measured in different terms and thus more internationally comparable.

⁴¹ Indeed, changes to marital status probably rank higher than poverty in US policy makers’ policy and evaluation aims.

The result was a transformation of behaviour among low income single mothers. They left welfare (or avoided entering welfare) in much larger numbers than anyone expected. This produced a substantial increase in their earnings, which was reinforced through expanded work related supports such as EITC. Their overall disposable income grew less than their earnings, in part because they lost public assistance income and in part because work expenses such as child care ate into their dollars. But this major transformation off welfare and into work did not produce increases in poverty, and in fact, most of their families appear to be doing at least as well or a little better (based on cash income measures). (p52)

Table 4.1 Impact of government programmes on children's poverty gap

| Poverty Gap Based On: | Year | | | | | |
|--------------------------------|------|------|------|------|------|------|
| | 1979 | 1983 | 1989 | 1993 | 1995 | 1999 |
| Cash Income Before Transfers | 33.9 | 45.0 | 41.2 | 51.7 | 46.1 | 34.8 |
| Plus Social Insurance | 28.5 | 37.9 | 35.8 | 44.7 | 39.9 | 29.5 |
| Plus Means-Tested and Non-Cash | 12.7 | 18.8 | 17.2 | 21.3 | 19.9 | 17.6 |
| Plus Federal Taxes | 12.8 | 19.4 | 17.2 | 20.8 | 17.2 | 15.2 |
| Total Reduction (%) | 62.4 | 56.9 | 58.4 | 59.8 | 62.7 | 56.3 |

Note: Figures in billions of 1999 dollars. Poverty gap is the amount of money that would be required in a given year to bring all children to the poverty line. Federal taxes include the EITC.

Source: Haskins and Primus 2001, table 1

Estimates of poverty are dangerous if not accompanied by an approximation of how many of the poor have got poorer, richer or stayed the same. Estimates of the erosion of the American safety net by Porter and Primus (1999) showed that participation in safety net programmes by children fell faster than child poverty over the mid to late 1990s. Both social assistance (AFDC and TANF programmes) and food stamp programmes saw significant falls (by 36% and 27% respectively) while the number of poor children fell by only 10%. On the other hand, the proportion of children in families with earnings represented very significant proportions of those lifted out of poverty by government transfers (85.4% according to Porter and Primus 1999), with 79.1% having earnings plus EITC. Haskins and Primus (2001) show the total impact on the poverty gap for children in poverty from government programmes (see table 4.1). The total reduction of poverty gaps from market income, the first line in the table, has risen remarkably from 1993 to 1999. Means-tested benefits reduced the poverty gap by over \$23 billion in 1993 but by only \$12 billion in 1999. Despite improvements in EITC (see "federal taxes" in the table), means-tested programmes were less effective in reducing poverty gaps after welfare reform; Hastings and Primus estimate that 0.7 million low-income families with children were worse off (2001:6). It is worth remembering that incomes of such families fall far below the American poverty line. Zedlewski et al. (2002) found that the numbers of sole parents in extreme poverty rose between 1996 and 1998.

The best evaluative overview of all aspects of welfare reform is by Blank (2002a), who admits that information is quite limited. Incentives and structures of welfare reform and EITC should make people who leave social assistance for work, better off (see Acs et al. 1998, for instance). Survey evidence, according to Blank, shows income increases not only for those who leave welfare but mostly for those who would have claimed previously but now do not – such as frictionally unemployed single mothers. This effect is expected, such potential claimants have work experience and can find other jobs, but it also points to the fact that many have lost support for short periods out of work and that increases in income can come from shorter periods of absence from work as well as continuous employment. The Grogger findings from analysis of the current population survey supports findings on the effect of EITC within the whole welfare reform package:

Recent EITC expansions have had substantial effects on all dimensions of behaviour. In fact, the EITC may be the single most important policy measure for explaining the decrease in welfare and the rise in work and earnings among female-headed families in recent years. (Grogger 2003:408)

Survey evidence also suggests that increased incomes for ex-welfare recipients come from earnings or other forms of income from other family members in many cases (Blank 2002b:61). Lichter et al. (2005) find little evidence for differential impact on ethnic minority and immigrant children in overall poverty profiles. They found income change over the 1990s as maternal employment increased, helping to reduce poverty for all groups, while racial differences in family structures were significant in explaining differences in ethnic profiles of poverty.

Meyer and Sullivan found no evidence of lower consumption levels for single mothers in the first years after reform but found in the period before time expiry began to occur on a large scale that:

The level of total expenditure for single mothers increases slightly in real terms throughout this period. In relative terms, there is some evidence that consumption for single mothers near the bottom of the consumption distribution increased over the 1990s, and this increase is also noticeable for less skilled single mothers. In most cases, we see a statistically significant increase in relative total consumption for single mothers between ... 1996–1998. (2001:31)

Other evidence focuses on longitudinal profiles, of either “welfare leavers” – recipients who cease claiming social assistance – or from a specially commissioned longitudinal survey of low-income American families (the Survey of American Families). Welfare leaver studies usually follow individual ex-recipients through administrative data, and are thus unable to join other family members into profiles and analysis. This makes poverty assessment difficult in many cases. Even so, Blank notes that most studies that analyse poverty find “quite high poverty among leavers” (Blank 2002b:59). Acs et al. (2001) find the average monthly family income for welfare leavers hovers near the poverty line and that where poverty rates are measured, over half of leavers, on average, are poor. Two studies find that the majority have incomes below 185% of the federal poverty line. However, this synthesis study of leavers found one quarter or more leaver families experience food hardships at some point after leaving welfare. Such evidence is supported by Danziger et al. (2000) who found that while those leavers who worked most consistently had higher levels of both material and subjective wellbeing, there was a substantial proportion who reported respondents had serious economic difficulties and subjective financial strain, with a poverty rate of 36.9%.

Evidence from the Survey of American Families shows poverty, food and housing hardship fell overall between 1997 and 2002 (Nelson 2004). Poverty among sole parents fell from 38.7% to 28.8%, and among married parents from 8.6% to 6.6%. Food hardship among low-income households (those with incomes less than twice the poverty line), fell from 62.4% to 59.4% between 1997 and 2002, not enough to be statistically significant. Food hardship for married parents fell from 46.4% to 45.8% over the same period. Housing hardship for low-income sole parents grew over the period, from 32% to 35%, but fell for married parents (from 25.8% to 23.1%). These findings support the findings from the first waves of the survey (Loprest 2001) that earlier cohort welfare leavers (1995–1997) fared slightly worse than those who left between 1997 and 1999, but that overall there is still significant and widespread hardship among leavers with earnings.

4.3.1.2 New Hope project

These findings for national welfare reform across the USA contrast with those from the New Hope project described in section 3. This was a service and income support scheme for those who were earning, with no underlying changes to entitlement or conditions of receipt of social assistance (“welfare” or AFDC). Huston et al. (2003) report significant increases in income and reductions in poverty for some groups of participants five years after these people entered the programme. Poverty levels for the group receiving the programme remained consistently lower overall for all five years of evaluation and thus beyond the actual programme being in place. This is partly due to the fact that the effects on income in later years were higher but not statistically significant and partly because the programme helped to lower the number of those with very low incomes. In year five, 52% of the programme group had incomes below the poverty line compared with 60% of the control group. Measures of material hardship showed no differences between the groups but measures of wellbeing – physical wellbeing and lower depression – increased for the programme group (Houston et al. 2003).

4.3.2 The UK

The discussion of hardship and poverty continues with evidence from British reforms but these terms can mean different things. In the UK, poverty is measured primarily in relative terms, through government-produced income statistics that are updated each year – Households Below Average Income (HBAI) (Department for Work and Pensions 2005). This series of statistics uses before- and after-housing cost measures to take account of the means-tested housing allowance programme that can skew incomes at the bottom of the distribution, and a variety of poverty lines (40%, 50% and 60% of mean equivalised income and 50%, 60% and 70% of the median). The UK subscribed to the EU measure of poverty and social exclusion indicators based on 60% of median (Atkinson et al. 2002, European Commission 2005). However, domestic policy on child poverty took a revolutionary turn in 1999 when Prime Minister Tony Blair promised to end child poverty within a generation – by 2020. This policy is now in place, with subsidiary targets of halving child poverty by 2010 and quartering it by 2005. This commitment resulted from the recognition of the long-term effects of child poverty on life chances and inequality, and the economic and social performance of the country, as well as the poor ranking the UK had in Europe.

How will child poverty be measured in order to meet this target? The Department for Work and Pensions finally decided on three measures in a tiered approach (2002, 2003):

- *absolute low income* – defined as 60% of median income in 1998/1999 prices (£210 for a couple with two children) and adjusted over time by prices
- *relative low income* – defined as 60% of contemporary median income comparable with EU standards (with changed equivalence scales to those used in the HBAI series and on a before-housing cost basis)
- *combined material deprivation and relative low income* – based on those who are both below 70% of contemporary median and unable to afford a set profile of goods and services.⁴²

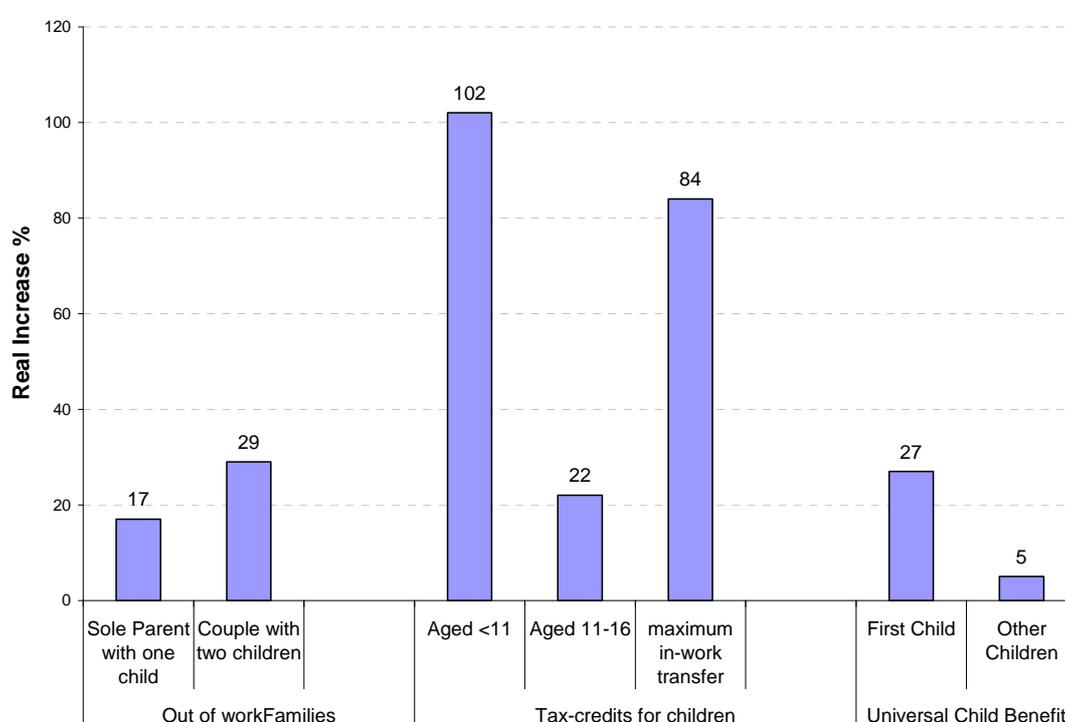
⁴² This last measure will be set using data from the 2003/2004 Family Resources Survey that has been adapted to capture the required elements of material deprivation.

The final target is still not clear, but “ending” child poverty will probably mean ending poverty on the “absolute low income” measure and reducing relative poverty to levels found in the best EU countries (4%–5%).

4.3.2.1 Effects of policy change on poverty and living standards

How has policy changed to meet these ambitious policy goals? There have been two main changes to income transfers. The first is the increase in child rates for social assistance which, in 2004, were brought forward to be included in the unified Child Tax Credit (CTC); the second is the increased generosity of in-work payments to families with children (which, from 1994, was Working Families’ Tax Credit and from 2004 was the combination of CTC and WFTC. These tax credits are described in section 3.

Figure 4.5 Real increases in value of UK transfers for children 1997–2003



Source: Hills 2004, table 9.1

Increases to rates of social assistance (or CTB – Council Tax Benefit for those out of work), child benefit and in-work tax credits need further discussion before looking at the effects of these changes on poverty and living standards. Hills (2004) calculates that increases in real price generosity from 1997 to 2003 have been substantial with regard to children, and highest (more than double) for children aged less than 11 years. Figure 4.5 shows the real increase in transfers for children and families with children.

The substantial increases in real generosity of means-tested assistance and tax credits have been focused on young children (under 11 years) and for assistance in work. However, for families out of work, the large increases in real terms in child components of their transfers is offset by a lack of real increases to the amounts for adults. This means that while support for children under 11 years has risen by 102%, when these children are placed alongside their parents, the increase is far less – 17% for a sole parent and 29% for a couple with two young children. At the same

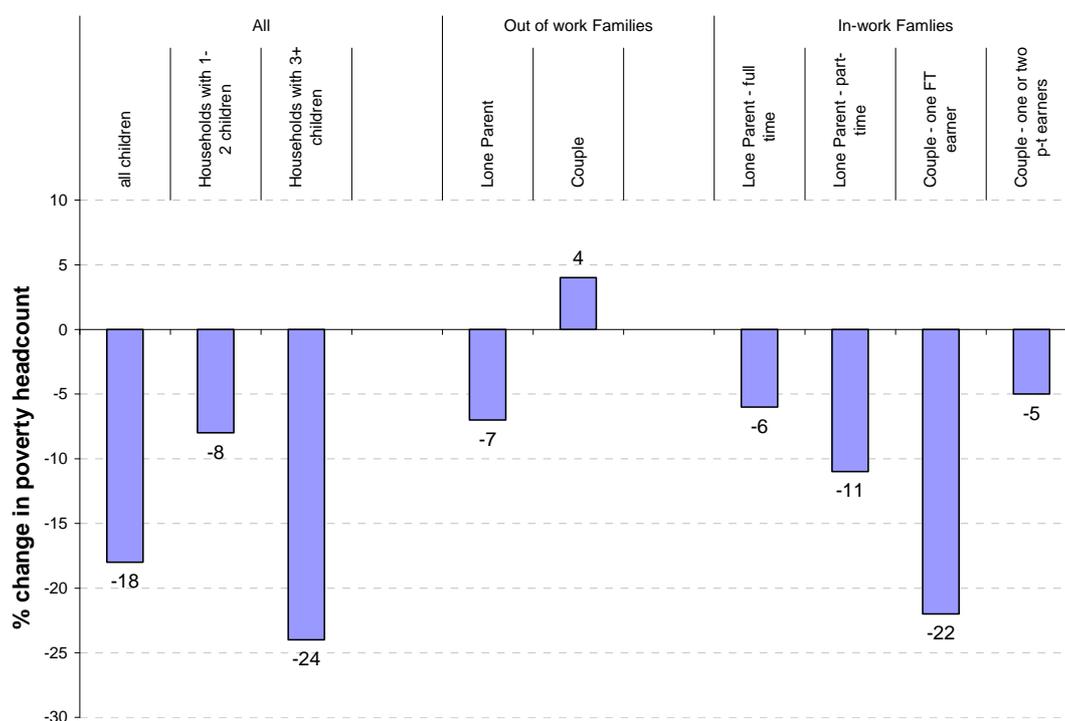
time, universal benefits for the first child have risen by 27% (although this rise has no impact on families claiming social assistance as this income is taken pound for pound from benefit). The combined impact is to raise incomes in real terms by at least one-sixth for families out of work but to also improve incentives to work by large increases in in-work support.

As seen in section 3, the effect of tax credit incentives to take up employment is working. This, with increased job entry rates (especially for sole parents), should show real progress in reducing poverty. The difficulty is that real price increases in transfers are not keeping up with the growth in median income. Elements of CTC are annually up-rated to match earnings growth, but as underlying income thresholds are up-rated only with prices (along with all other elements of the package), this does not hold the *relative* positions of low-income families over time. Evans and Eyre have demonstrated this through hypothetical medium to long-term projections based on lifetime profiles (2004). But, in the short term, and over the past few years especially, these changes, accompanied by continued job growth and growing employment rates should have delivered significant reductions in both relative poverty and reduced material hardship. Is this the case?

A significant body of British literature is monitoring if the government is meeting or can meet the poverty target. Much literature uses poverty measures from the existing HBAI approach rather than the newly determined policy outcome target measures, which in any case, are still in development or have not been completely incorporated into HBAI baselines. These approaches use micro-simulation of policy change as described in our methodology review. The two main sets of analysts are attached to either the Institute of Fiscal Studies (Brewer and Gregg 2002; Brewer, Clark and Goodman 2003; Brewer 2004; Brewer, Duncan et al. 2003) or to the micro-simulation work of Sutherland based with colleagues at the London School of Economics (Sefton and Sutherland 2005, Piachaud and Sutherland 2003, Piachaud and Sutherland 2000). Stewart (2005), looking across the evidence points out that they all find the 2005 target to quarter child poverty will almost certainly be met under one measure – 60% of median income before housing costs – but are less certain about meeting the same relative measure using after housing cost incomes.

It is thus too soon to know whether the 2005 targets will be met, but progress on poverty appears clear. Figure 4.6 shows the Stewart figures for changes in poverty since 1996/1997 to 2002/2003.

Figure 4.6 Changes in child poverty by family type and employment 1996/1997 to 2002/2003



Note: Proportional change in rates of after housing costs income measure⁴³
 Source: Stewart 2005, table 7.3

Figure 4.6 shows there is an almost unambiguous improvement on the most difficult of relative poverty measures (after housing costs) for all families with children. The only exception is couples who are not in work (this reflects that their income is largely made up of adult allowances for social assistance, which have not been increased beyond price inflation). Overall poverty for all children has fallen by 18% with the greatest falls in larger families and part-time working families (either lone parent or couple families).

Has the additional money to families with children actually been spent on children's needs? Gregg et al. (2005a, 2005b) analysed spending by families over the 1996/1997 to 2000/2001 period using the family expenditure survey, the key survey in the UK that collects income and spending data. They found that many of the increased resources put into households with children by additional transfers, (often combined with earnings), has been put to good use.

Low income families have always prioritised spending on necessities such as housing and food, but our results indicate that as incomes have risen the extra income has also been spent disproportionately on items for children, in particular, clothing, footwear and toys and games. Families have also spent more money on clothing for the adults in the household, an area where their spending had lagged. Families have not spent more money on alcohol or tobacco or housing. (Gregg et al 2005b:273-4)

These findings are supported by analysis of family circumstances in the longitudinal family and children's survey (FACS) (Vegeris and Parry 2003).

⁴³ The equivalent before housing cost measures have the same signs for each sub-group and group but have different values.

Smaller scale qualitative survey evidence by Farrell and O'Connor (2003) also confirms the finding that income improvements led to less constrained spending on food – and also less frequent spending as households began to bulk purchase. Quality of food increased first, with more meat, fish, fruit and vegetables, and “treats” became more common. Clothing was purchased for children before adults and improvements to housing conditions focused on improving warmth, decoration and furniture. Holidays, where experienced, “were generally a new experience to all” (Farrell and O'Connor 2003:5) and more luxuries were taken up by higher income households.

The impact of improved incomes and increased spending for families both in and out of work has resulted in falling material deprivation and “hardship”, according to longitudinal survey evidence from FACS (McKay 2001, McKay 2003, McKay and Collard 2003, Barnes et al. 2004). Table 4.2 shows a time series for lone parents (the most consistent part of the longitudinal panel across these years) that clearly shows measures of material deprivation have fallen since more generous transfers were made.

Table 4.2 Lone parents’ material deprivation and financial stress indicators

| | 1999 | 2000 | 2001 | 2002 |
|---|------|------|------|------|
| <i>Proportion unable to afford selected items</i> | | | | |
| Cooked meal every day | 8 | 6 | 5 | 3 |
| Fresh fruit on most days | 17 | 13 | 11 | 9 |
| New, not second-hand, clothes | 41 | 35 | 28 | 25 |
| Best outfit for children | 20 | 19 | 15 | 13 |
| Celebration with presents on special occasions | 27 | 23 | 17 | 14 |
| Money for outings and trips | 59 | 52 | 46 | 41 |
| One week holiday away | 74 | 69 | 62 | 58 |
| <i>Indicators of financial stress</i> | | | | |
| Problems with debts most of the time | 15 | 13 | 10 | 12 |
| Run out of money before the end of the week/month | 27 | 24 | 21 | 19 |
| Worry about money almost always | 45 | 38 | 33 | 30 |
| Never has money left over | 48 | 40 | 34 | 17 |

Source: McKay and Collard 2003, table 7.1

4.3.3 Canada

Canada too has given a promise to work towards ending child poverty by way of a unanimous House of Commons agreement in 1989 “to seek to achieve the goal of eliminating poverty among Canadian children by the year 2000” (cited in Campaign 2000, 2005). Canada still has a way to go. Canadian census figures for 2000 show that 19% of all children are in poverty, and that rates are far higher for aboriginal populations (41%), other minorities (34%) and immigrants (42%) (Campaign 2000, 2004). Child poverty rose in the latest statistics available (2002) after declining since 1996.

Canada has no official poverty line but has historically measured income and changes in poverty against a low income cut-off (LICO). This resembles the American poverty line in many respects as it is based on patterns of constrained spending by low-income families. On the basis that the average Canadian family spends about a half of its income on food, clothing and shelter, it was estimated that if a family spent significantly more (ie 20% more) than half its income on essentials it was living in poor circumstances. Seventy percent of income was adopted as the cut-off point in the 1960s. This reflected the fact that families that spend more than 70% of their income on essentials would have little or no income left to spend on transportation, health, personal care, education, household operation, recreation or insurance.

Unlike the US, this proportion has been updated to reflect changes in consumption patterns, so that it moved to the current 54.7% following the 1992 expenditure survey. This reflects relative changes in consumption and incomes. The LICO cut-offs are calculated according to location and family composition and result in 35 separate low-income cut-off points across Canadian survey data for national income profiles. However, since 1991, Canada has also adopted a low income measure (LIM) (a relative poverty line based on 50% of median equivalised income) for international comparison. Giles (2004) points out that the official Canadian statistical view is, "The primary reason for its popularity is its simplicity of calculation, unfortunately not because of a sound scientific justification" (p6). Since 1997 Canada has adopted a "basket of goods" approach, the market basket measure (MBM) based on a costed set of essential goods and services. Most evaluation research on poverty in Canada has used the LICO – especially the after-tax LICO – measure.

4.3.3.1 The Self-Sufficiency Project

Details of the Self-Sufficiency Project (SSP) are given in section 3. SSP was an experimental, time-limited in-work supplement that had significant impacts in increasing employment for its target group, sole parents on social assistance. Michalopoulos et al. (2002) show that impacts on poverty, measured against the LICO standard on annual incomes, were considerable. SSP, which operated in two states, lowered poverty by 12% at 18 months and by 9.4% after 36 months compared to the control group. As the SSP supplement was time-limited there was only a small (0.9%) and insignificant difference after 54 months, 18 months after treatment ended. These results are clearly and obviously linked to underlying incomes. At 36 months, after-tax incomes were around 8.5% higher for those receiving SSP. The impact on incomes at 54 months was negative, with lower unearned income for the treatment group but also lower usage of social assistance payments (income assistance).

The results from SSP clearly show that supplementing earnings has a positive impact on poverty but that a longer term is required for long-term impacts on poverty; three years is not long enough to make an impact much beyond the end of the time-limited programme.

4.3.3.2 Canadian Child Tax Benefit

Official evaluations of the effects of CCTB on incomes and poverty are currently limited to a simulation exercise that applied the changing policy regimes of 1996, 1999 and 2004 on a constant 1999 population and compared this to a zero-benefit position. This exercise (Department of Finance 2002) shows that the baseline headcount of families with children with no child benefits is 16.8%. With the 1996 CCTB system this falls to 13.9%. With the revised structure of CCTB and the increase in generosity of in-work transfers through National Child Benefit Supplement, rates fall to 13.1% in 1999 and to 12.4% in 2004 (projected) (Department of Finance 2002, table 3).

The Centre for Study of Living Standards report of a fuller range of micro-simulation exercises that examined different poverty measures, and both poverty headcounts and poverty gaps, provide very similar, if a more contextualised, set of results (2002). Using the after-tax LICO poverty measure (the one that is easiest to set alongside other Canadian evidence), it was able to estimate post-facto changes between 1996 and 1999 and attribute them to the introduction of the National Child Benefit Supplement across Canada. These estimates took into account the different provincial level implementation of social assistance claw-back and found that poverty headcount rates fell by 4.6%. The fall in poverty gaps, at 8.7%, was greater. These

micro-simulations however were limited by their ability to capture cash transfers only and not the accompanying investment in support programmes that provinces enacted with the savings to social assistance budget. Estimates would be larger if these were taken into account.

Other direct evaluation evidence of CCTB is extremely limited. Lefebvre and Merrigan (2003) argue that the financial employment incentives from current CCTB structures are too weak, even in provinces where they do not claw back the CB supplement (see section 3 for discussion). They point out that labour market entry levels have not matched predictions and that gains from employment for such job entrants are below predictions – by 32% for women sole parents and 28% for women in couples (Lefebvre and Merrigan 2003, table 1).

Publication of the Canadian government evaluation has been “imminent” throughout the writing of this review and will greatly bolster the evidence base from Canada on its eventual release. There is a plethora of commentary in Canadian literature (eg Battle and Mendelson 2001, Mendelson 2005), but little good quality evidence that can be generalised for policy literature readership in New Zealand.

4.4 Overview

Overall the evidence on poverty outcomes is of a lower quality than evidence so far on take-up and employment – for several reasons. There are fewer economic assessments of poverty outcomes from policy change in the USA; the large body of econometric estimation on labour supply effects, for instance, is simply not replicated for poverty and income change. There is US experimental evidence but no large-scale econometric modelling of the quality that surrounds labour supply. This is partly due to the pre-occupation with economists active in analysis of transfers in the USA where the majority of work is on behaviour, employment, marriage, take-up, etc, rather than on living standards and outcomes. It is also because the American policy debate is focused less on poverty and more on employment and on reducing the caseload of social assistance. For instance, President Clinton’s investment in EITC in the early 1990s was an explicit programme of poverty reduction but was accompanied by other policies driven by alternative aims and which undercut an overall anti-poverty approach. In contrast, the UK has adopted a clear policy target of ending child poverty and has to more carefully balance employment and social assistance policy to achieve this. Canada stands mid-way, with a highly visible anti-poverty policy agenda but with programme investments most likely to lower poverty without a great structural realignment that either ends considerable social assistance use or ends poverty entirely.

Another reason is that poverty and living standards are an aggregate outcome, a combination of income changes arising from changes to employment behaviour and consumption, as well as from changes in underlying demographics as children get older, more children are born and parents join and separate. The ability to isolate the policy impact is more constrained and explains why, apart from experimental evidence, studies that use micro-simulation form a larger body of the research evidence, as they can control for other changes and concentrate analysis on the outcomes of policy change alone. However, micro-simulation studies are not solely empirical in their analysis of poverty outcomes but are a hybrid of empirical and hypothetical analysis.

Table 4.3 summarises the most generalised and usable research evidence for New Zealand from the UK, USA and Canada. Readers are advised to monitor Canadian

government websites for publication of the long-anticipated official evaluation of the Canadian Child Tax Benefit, which should be a significant addition to the literature.

Additional questions should be considered. Do welfare reform initiatives or welfare policy changes that are broadly analogous to the WFF package influence income, living standards and/or measures of poverty?

There is clear evidence that reforms of this type alter living standards and poverty headcounts and poverty gaps.

The most consistent income gains of considerable size follow from an individual entering employment and changing the individual's reliance on social assistance to the combination of earnings and in-work transfers.

Table 4.3 Overview of studies that examine poverty outcomes from policy changes similar to WFF

| Study | Country | Scheme | Coverage | Methodology | Main findings | Caveats |
|---|---------|---|---|--|--|---|
| Brewer (2004) Brewer, Clark and Goodman (2003) | UK | Combined effect of WFTC and other policy change | All families with children within whole population | Micro-simulation | Relative poverty falling as a result of change | Difficult to identify role of behavioural change versus income change |
| Sefton and Sutherland (2005), Piachaud and Sutherland (2003) | UK | Combined effect of WFTC and other policy change | All families with children within whole population | Micro-simulation | Relative poverty falling as a result of change | Difficult to identify role of behavioural change versus income change |
| Gregg, Waldfogel and Washbrook (2005a, 2005b) | UK | Combined effect of WFTC and other policy change | Poor families with children compared to all and richer families with children | Secondary analysis of expenditure survey data | Consumption on children increases as incomes rise after reform Gaps between poor and rich families on essential consumption narrow | |
| Michalopoulos et al. (2002) | Canada | Self-Sufficiency Project | Social assistance claiming sole parents | Random assigned experiment | Income increased to control group and poverty headcounts lowered. | Time limited experiment – effects dwindle to zero (or -ve) after programme ends |
| Centre for the Study of Living Standards (2002) | Canada | Canadian Child Tax Benefit changes | All families with children | Micro-simulation | Decreases in headcounts and gaps using a consumption-based relative poverty measure | Difficult to identify role of behavioural change versus income change |
| Grogger (2003) | USA | EITC and welfare reform | All families with children Focus on sole parents | Econometric regression | Estimates the EITC role in income changes and employment separate from other aspects of reform | US policy changes to social assistance make findings difficult to generalise from |
| Meyer and Sullivan (2001) | USA | EITC and welfare reform | Sole parents | Econometric regression | Find no evidence of income losses above 5% post-welfare reform | US policy changes to social assistance make findings difficult to generalise from |
| Zedlewski et al. (2002) | USA | EITC and welfare reform | Families with children | Secondary analysis of longitudinal survey of American families | Evidence of severe hardship for some families Evidence of continuing hardship in work for some families who have entered or remained in low-paid work | US policy changes to social assistance make findings difficult to generalise from |

There is considerable evidence that raising social assistance rates for families with children also reduced poverty gaps and hardship.

Overall patterns of losers and gainers are more widespread in the USA where entitlement to social assistance has been removed. This means that reductions in headcounts are associated with higher gaps for some of those who remain in poverty.

The additional income received from policy change in the UK has been clearly tied to increased spending on children and essential household items. Little additional spending on alcohol or tobacco products has been found.

Do some groups benefit more than others from welfare reform initiatives or welfare policy changes that are broadly analogous to the WFF package?

There are inherent labour supply effects that benefit single-headed households or single-earner households as outlined in the previous section. These give rise to greater gains in income, both in absolute and relative terms, to lone parents who enter work.

There is little evidence available on how ethnicity independently affects income and poverty outcomes from policy changes.

Larger families, those with disabilities and other constraints on working, will have less income gain from such programmes than other families. However, changes to generosity of social assistance payments to children disproportionately assist those with higher numbers of children and, in general, assist those out of work to help reduce hardship.

5 Childcare

This section reviews international evidence to consider how government childcare assistance can affect the operations of the childcare market, and more specifically the behaviour of childcare providers and parents. As outlined in previous sections, a key aim of the WWF programme is to improve the availability of affordable childcare by increasing payments to providers of two existing schemes, namely the Childcare Subsidy (CCS) for pre-school children and Out-of-School Care and Recreation (OSCAR) subsidy for school children up to and including 13-year-olds. Parents in work and those in training will be eligible for up to 50 hours of childcare assistance each week, while out-of-work parents will be eligible for nine hours (increasing to 20 hours in 2007).

In considering how the childcare market might change in New Zealand, it is important to note that in addition to changes in childcare subsidies, the government launched the ten-year strategic plan for early childhood education in 2002. The main aims of this plan are to:

- increase participation in early childhood education, particularly among children currently under represented (ie children from Māori and Pacific communities, low socio-economic groups and rural areas) by increasing the funding targeted at these groups, promoting culturally sensitive services and providing better information for parents
- improve the quality of early childhood education by increasing staff qualification levels: by 2012 all regulated staff in teacher-led early childhood education will need to be registered teachers. Intermediate targets have also been set so that by 2007, 50% of regulated services will need to meet this requirement and by 2010, 80% will need to do so. Measures were also introduced to encourage people from under-represented groups to qualify and develop teaching courses to meet the needs of different groups (eg Māori immersion services). The government also aims to achieve pay parity for kindergarten teachers with primary school teachers, and has introduced other measures to improve professional development and practice
- promote collaborative relationships with parents and a range of other family services (eg parent support, parent education, health and social services) (Ministry of Education 2002).

Drawing on international evidence, this section explores how the changes outlined above might influence the New Zealand childcare market. Key questions addressed in relation to childcare providers include:

- Does an increase in subsidy lead to an increase in (different types of) provision?
- Does an increase in parents' purchasing power (because of the subsidy) increase responsiveness of services to parents' needs (eg for flexible provision, care at atypical hours)?
- What problems could providers face in responding to an increase in demand and to parents' needs regarding the nature of the service (eg opening hours, ages catered for, flexibility)?
- What is the relationship between childcare costs, subsidies and quality? For example, is an improvement in the quality of provision likely to lead to an increase in fees? Do subsidies have a positive effect on the quality of services?
- Is the increase in the availability and level of childcare subsidies likely to lead to an increase in fees?
- Could childcare subsidies increase the availability of places for subsidised parents at the expense of unsubsidised parents?

When exploring how government intervention might influence parents' childcare choices,⁴⁴ the section focuses on key questions including:

- Do childcare subsidies lead to an increase in participation in early childhood education and out-of-school care?
- Does this increase vary among different groups?
- What (if any) childcare arrangements did families have before they started using subsidised care?
- Do childcare subsidies increase parental employment?
- Are there other obstacles to accessing childcare and entering work that are not dealt with by the subsidies?

5.1 Understanding childcare markets

Figure 5.1 summarises the main factors that influence the shape of childcare markets. Like all markets, childcare markets are influenced by supply and demand, directly or indirectly. However, the behaviour of “suppliers” and “customers” can be influenced by government intervention at national and local levels. The level and nature of government intervention varies considerably across countries and to some extent within countries as well, but the most common forms of intervention include:

- providing supply-side and demand-side funding
- establishing regulatory frameworks
- providing childcare services
- ensuring an adequate supply of childcare staff
- disseminating information about childcare services and funding.

While in all markets childcare supply is influenced by government policies, the extent of this influence can vary considerably. Countries such as the USA and UK where the government has encouraged market-driven approaches to childcare expansion, for-profit services and the voluntary sector play a dominant role in the market and the role of the government, particularly in some “market segments”, can be rather limited. At the other end of the spectrum, in some Nordic countries, concepts such as market and market forces are mostly absent from the childcare discourse. Services in these countries are publicly funded and provided, and access to childcare tends to be seen as an entitlement.

On the demand side, probably the single most important factor associated with patterns of childcare use is maternal employment (as discussed in section 5.7, where countries with high levels of participation in early childhood education are also countries with high rates of maternal employment). Similarly the nature of provision (eg opening hours, location of service) is usually closely linked to mothers' working patterns: full day-care services are more likely to be found where a large proportion of mothers work full-time; on the other hand, where most early childhood education does not cover the typical working day, maternal part-time employment is very common. Causality between employment participation and childcare use is likely to run in both directions: mothers' desire to take up paid employment can result in an increase in childcare and can also affect the extent to which this is required on a full-time basis; at the same time the provision of (affordable) childcare can lead to an increase in maternal employment (and full-time employment in particular), as it makes it both possible and financially advantageous for mothers to go out to work.

⁴⁴ The focus of the chapter will be on formal provision, that is: group-based early childhood education, out-of-school care and registered family care. The chapter will discuss the role of informal care provided by relatives and friends, mainly as a factor that can influence parents' views and decisions regarding the use of childcare services.

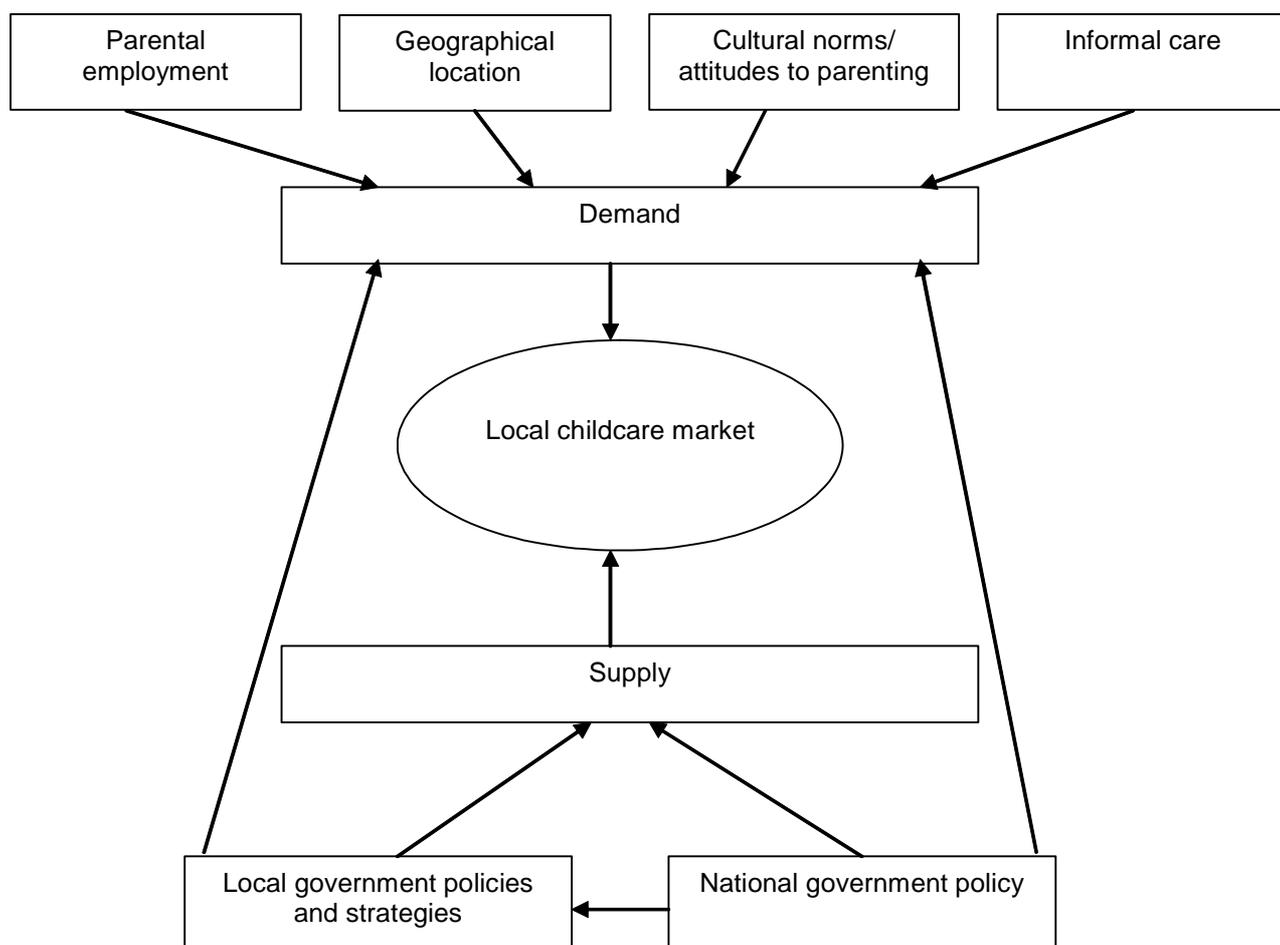
Because of the close link with maternal employment, patterns of childcare use are also usually associated with factors that influence labour market participation. This includes parents' educational background and employment history. Generally, childcare use is highest among highly educated and skilled parents and lowest among those from lower socio-economic groups (OECD 2001a). Geographical location can also affect demand for childcare, mainly reflecting employment opportunities for mothers in different labour markets. Furthermore, even within the same country childcare services might develop at different paces and in a variety of ways in different geographical areas, which in turn can influence the extent to which use of childcare services has been "normalised" and seen as desirable (Harries et al. 2004). Cultural norms, and attitudes towards parenting and use of formal and informal non-parental care can also be influenced by other factors, including social class and ethnic origin; these can considerably influence the kind of care parents consider acceptable and desirable for children at different life cycle stages (Bell, Finch et al. 2005; La Valle et al. 2000).

5.1.1 Countries reviewed

The factors that shape childcare markets will be reviewed here, focusing on two contrasting groups of countries: three English-speaking countries (in addition to New Zealand), and four Nordic countries. The English-speaking countries include Australia, the UK⁴⁵ and the USA, chosen because they share many of the characteristics of the NZ childcare market, particularly in relation to funding strategies, childcare policies and patterns of participation in early childhood education. While these countries are different from New Zealand in some respects (for example, Australia and the USA are federal states), similarities in relation to the development of childcare services mean they have had to confront some of the challenges that New Zealand might experience in trying to increase childcare use (and parental employment). The Nordic countries (Denmark, Finland, Norway and Sweden) have been included because childcare services here have developed in very different ways, and both childcare use and maternal employment are considerably higher than in English-speaking countries. They can therefore provide useful lessons for a country like New Zealand, which is trying to expand childcare provision and increase parental employment. Another reason for comparing these two groups of countries is that they have very different welfare regimes, which account for many of the similarities between countries in each group, as well as the variations between the two groups.

⁴⁵ The UK includes England, Northern Ireland, Scotland and Wales unless otherwise stated.

Figure 5.1: Factors shaping childcare markets



Source: Dickens et al. forthcoming

5.2 Childcare policy objectives

In comparing different childcare markets and the policies that have influenced them, it is useful to distinguish between children at different life cycle stages and ages. That is:

- infants and toddlers – comprising children under the age of three
- pre-schoolers – children from the age of three until they start compulsory school (this ranges from five in Britain⁴⁶ to seven in Denmark and Sweden)
- primary school-aged – above pre-school age to the ages of 10–12.

This distinction is necessary as in many countries the policy objectives, funding strategies, the locus of policy making and administrative auspices vary according to children's age group.

Two overarching themes have influenced the development of childcare policies in all the countries in this review: children's wellbeing and parental employment. These are discussed in the rest of the section.

5.2.1 Children's wellbeing

⁴⁶ Britain includes England, Scotland and Wales, but excludes Northern Ireland.

There is now widespread recognition that early childhood education has a considerable positive influence on a child's development (see section 6.5) and all countries reviewed have achieved or are moving towards universal early childhood provision for pre-schoolers. However, historical differences about views on the role of children and childhood have resulted in considerable variations in the ways services have developed and the philosophies underpinning these developments. One difference relates to the extent to which early childhood is considered a special time with intrinsic value, and the degree to which childhood is considered a preparation for the future, that is: whether a child is "being" or "becoming". Nordic countries place an emphasis on the child as "being", as the quote below from the Norwegian framework plan illustrates:

...childhood as a life-phase has a high intrinsic value, and children's own free time, own culture and play are fundamentally important...the need for control and management of the [barnehager⁴⁷] must at all times be weighted against the children's need to be children on their own premises and based on their own interests. (Ministry of Children and Family Affairs in Norway 1996, cited in OECD 2001a:42)

This emphasis is evident in the way early childhood services have developed in Nordic countries; from the beginning they have combined education, care and upbringing in an integrated pedagogical approach (Moss et al. 2003). They are also less likely to stress the formal "curriculum", partly reflecting variations in educational philosophy, and partly from a conviction that children brought up in a highly organised and pressured society need opportunities for less structured daily experiences and for exercising some control over the activities they engage in (Kamerman 2000).

While children's wellbeing has also influenced childcare policies in English-speaking countries, programmes have developed in different ways. An important difference relates to the historical distinction in these countries between "education" and "care", which has resulted in a "two-tier" system and policy and administrative responsibilities being divided between different government departments (see section 5.4). On one hand, part-time early childhood education has been targeted at pre-schoolers; this type of provision is now publicly funded and universally available in some of these countries,⁴⁸ and levels of participation among (older) pre-schoolers are very high in all English-speaking countries. On the other hand, childcare services have developed mainly to cater for the needs of children under three. Historically, government intervention has tended to be limited to funding and providing care for children and families in need (eg children at risk, abused children), and more recently to encourage out-of-work mothers on benefits to take up paid employment.

Another way in which services in English-speaking countries differ from those in Nordic countries is that in the former there is more emphasis on the role of early childhood education in preparing children for school. This can result in the adoption of formal curricula for pre-schoolers. The emphasis is evident when looking at the literature on the impact of early childhood education on school readiness and educational outcomes – most comes from English-speaking countries, the USA and UK in particular.

It should be noted that some of the above differences between English speaking and Nordic countries relate more to the past, and some may become less marked or even disappear in future. For example, there is a growing consensus that "care" and "education" are inseparable concepts and a high-quality service should provide both.

47 The barnehager is a day centre for children aged 0–6.

48 In the UK all three- and four-year-olds are entitled to a part-time early childhood place. New Zealand has a target of achieving this by 2007.

New Zealand has already integrated these two aspects of service provision (Meade and Podmore 2002), and the UK government has recently announced its intention to do the same in England (HM Treasury 2004). Similarly, while there is still a difference in emphasis between the role of early childhood education and care, it has been argued that:

...a growing number of countries are seeking a balance between providing opportunities that will enable children to thrive in the next stage of education and adulthood and, at the same time, valuing ECEC [early childhood education and care] institutions as places for children to live out their lives in the "here and now". (OECD 2001a:42–3)

The discussion so far has focused on policies that have shaped the development of pre-school services, but the expansion of out-of-school provision has a rather different "policy history" and is much more recent. As has been noted elsewhere (OECD 2001a, Petrie et al. 2003), across most countries out-of-school services are far less developed than services for younger children. Information on the former is also scarce. Out-of school services have expanded only recently in most countries, mainly in response to working parents' needs, and only in Sweden do children (up to the age of 12) have a legal entitlement to this type of provision.

5.2.2 Parental employment

While the rise in mothers' employment has been a key feature affecting childcare policies in all the countries reviewed, policy responses in different national contexts vary considerably. In Nordic countries, pre-school services have been developed with the dual purpose of supporting children's development and promoting equal employment opportunities for women and men. As discussed later, this has had a considerable impact on the features of these services; for example, in terms of opening hours, target groups and fees charged. In Nordic countries there is also a high level of synergy between childcare and family-friendly policies.

There is some evidence that even in English-speaking countries gender equality has influenced childcare policies to some extent; for example, it has been argued that in Australia the growth of childcare services in the 1970s was the result of pressure from women who wanted to be able to continue to work after becoming mothers (OECD 2002a). Similarly, in the UK, after what may be termed years of "neglect", childcare was put firmly on the policy agenda by the new Labour Government in the late 1990s, with gender equality being one of the drivers for this change (Department for Education and Employment 1998). However, the policy responses have not been as coherent as in the Nordic countries. In the US, and, to some extent the UK, sole parents (on benefits) have been the main targets of some childcare initiatives. For example, when childcare financial assistance (in the form of tax credits) was increased in the UK, sole parents were the main beneficiaries (Harries et al. 2004). The system has now changed and is expected to benefit a greater number of two-parent families. Similarly, government intervention in relation to services for children under three has traditionally focused on some groups (eg children at risk), with very limited support provided for other working parents. In all English-speaking countries early childhood education for pre-schoolers is provided during school term-time only and on a part-time basis, and in some cases only for a very small number of hours. These "partial" responses to families' needs and a lack of universal well-funded care that covers the working day mean that parents in English-speaking countries are most likely to report difficulties in accessing childcare. These difficulties can considerably limit parents' (mainly mothers') employment options or make it impossible for them to take up paid work.

5.3 Childcare costs and subsidies

In this section, the issue of childcare funding is considered, with a focus on the respective contribution that families and the government make to childcare costs and the mechanisms used to deliver childcare subsidies.

5.3.1 *Who pays for childcare?*

A key difference between Nordic and English-speaking countries is the respective contributions that parents and the government make to childcare costs. In Nordic countries, a maximum parental contribution is established in publicly funded services. This ranges from 15% in Finland, 17% in Sweden and 20% in Norway to 30% in Denmark. Fee levels are also linked to parental income, so that low-income families pay lower fees and sometimes receive a free service. In some of these countries (eg Finland) a childcare allowance is also available to pay for private provision, such as family-based care (OECD 2001a, 2001c).

In contrast, in English-speaking countries the contribution by parents can be much higher; for example, it is estimated to be 75% in the UK (Daycare Trust 2004, cited in Waldfogel 2004) and 60% in the USA (OECD 2001a). These estimates are less reliable however, as overall figures are more difficult to obtain for these countries due to the complexity of their childcare funding systems, which tend to include a mix of universal and targeted funding. For example, in the UK, part-time early childhood education is free for three- and four-year-olds, while other childcare costs can be reimbursed through tax credits to low–middle income families. The proportion of childcare costs reimbursed in this way varies with income; it can be up to a maximum of 70% (increasing to 80% in 2006) for families with very low incomes. Maximum costs covered by this subsidy are also established, which means that even families entitled to the maximum contribution of 70% might be paying more than 30% of their childcare costs, if their costs exceed the limit allowed.

Although in English-speaking countries a considerable proportion of funding is targeted at low-income parents,⁴⁹ a relatively high percentage of these families' income is spent on childcare, and affordability is often cited by this group as a major barrier to childcare use. For example, in the USA 25% of the income of low-income families (with less than \$1,200 a month) is spent on childcare, compared with 6% of income spent on childcare by parents with high earnings (\$4,500 a month) (OECD 2001a). Similarly in the UK, the poorest families (lowest decile) spend just under a fifth of their income on childcare, compared with 8%–10% spent by the richest families⁵⁰ (highest decile) (Paull and Taylor 2002). In this respect Australia differs from other English-speaking countries; following the introduction of the Child Care Benefit in 2000, provision has become considerably more affordable, childcare costs to families have fallen across different types of services and groups and low-income families now spend between 5%–8% of their income on childcare (OECD 2002c). Finally, it should be noted that employers play a very limited funding role in all countries reviewed. This is a general trend as it is rare for employers to fund childcare even where they have been encouraged to do so (eg in the UK), although there are some exceptions (eg the Netherlands).

5.3.2 *Funding mechanisms*

⁴⁹ There has been a move towards extending subsidies to middle income families, for example in New Zealand and the United Kingdom, however, these developments are relatively recent and therefore their effects have not yet been fully assessed.

⁵⁰ These figures are for families with only one child.

Funding mechanisms vary considerably between countries, reflecting different political traditions towards the role of government and public services. In Nordic countries the bulk of public funding for childcare is given directly to services, which are either run by public authorities or are a mixture of public and private, but are mainly not-for-profit organisations regulated by public authorities.

English-speaking countries have much more complex funding systems, with some resources universally available and others targeted, usually at disadvantaged groups. Resources are also delivered through a mixture of supply-side funding, allocated to services to expand provision and develop the infrastructure, and demand-side funding, given directly to parents. For example, in the UK universal funding for part-time early childhood education for pre-schoolers is given directly to providers, while other types of funding are available for other forms of registered provision – “pump-priming” funding, given to services to cover initial start-up costs and encourage expansion, and tax credits to low–middle income families to cover a proportion of their childcare costs.

In Australia there is also a mix of state universal funding for part-time early childhood education for pre-schoolers and more targeted funding based on parental income for other types of provision (OECD 2002c). The USA has an even more complicated funding system operating at state and federal level, but most funding is targeted at low-income families through programmes such as Head Start and the Child Care and Development Fund (OECD 2000a).

These funding mechanisms have resulted in a public-private mix in terms of service provision, and in all English-speaking countries reviewed private providers are very common. For example, 90% of day-care services are private in the USA (60% not-for-profit and 30% for-profit). In Australia 73% of day-care centres are private and for-profit, while part-time early childhood provision for pre-schoolers is run mainly by community-based, not-for-profit organisations. In New Zealand 23% of early childhood education services are private and for-profit. Day-care services in the UK are also dominated by the commercial sector. However, government initiatives to expand day-care provision (eg the Neighbourhood Nursery Initiative) seem to be leading to an increase in the role of community-based, not-for-profit organisations (HM Treasury 2004, Mitchell 2002, OECD 2001a).

5.4 Key features of childcare services

We now consider how childcare policies and funding strategies have contributed to the development of different types and levels of services. Early childhood education and out-of-school childcare are discussed separately, as these two “market segments” are different and have developed in different ways. The information is summarised in tables 5.1 and 5.2.

Table 5.1: Organisation of early childhood education

| Country | Name of provision | Setting | Age groups | Opening hours* | Entitlement |
|-----------------------------------|---|----------------------|------------|----------------|---|
| <i>Nordic countries</i> | | | | | |
| Denmark | Vuggestuer | Centre | 0.5–3 | FT | Entitlement to full-time childcare 0–6 years |
| | Adersinteg-rerede | Centre | 0.5–6+ | FT | |
| | Børnehaver | Centre | 3–6 | FT | |
| | Dagplejer | Carer's home | 0.5–3 | FT | |
| | Børnehave-klasser | School | 5/6–7 | PT | |
| Finland | Päiväkoti | Centre | 0–7 | FT | Entitlement to full-time childcare 0–7 years |
| | Perhepäivä-hoito | Carer's home | 0–7 | FT | |
| | 6-vuotiaiden esiopetus | Centre/school | 6–7 | PT | |
| Norway | Barnehage | Centre | 0–6 | FT and PT | No |
| | Familiebarn-ehage | Carer's home | 0–6 | FT and PT | |
| Sweden | Förskola | Centre | 0–6 | FT | Entitlement full-time childcare 1–12 years |
| | Familiedaghem | Carer's home | 0–6 | FT | |
| | Förskoleklass | School | 6–7 | PT | |
| <i>English-speaking countries</i> | | | | | |
| Australia | Long day care | Centre | 0–5 | FT | No |
| | Family day care | Family Day Care home | 0–5 | FT | |
| | Pre-school | School/centre | 4–5 | PT | |
| New Zealand | Kindergartens | Centre | 3–5 | PT | No (but target for part-time provision for all 3 and 4 year olds by 2007) |
| | Te kōhanga reo | Centre | 0–5 | FT and PT | |
| | Pacific Islands early childhood centres | Centre | 0–5 | FT and PT | |
| | Education and childcare centres | Centre | 0–5 | FT and PT | |
| | Playgroups | Centre | 0–5 | PT | |
| | Home-based services | Carer's home | 0–5 | FT and PT | |
| UK | Day nursery | Centre | 0–5 | FT | Entitlement to part-time provision for 3 and 4 year olds |
| | Nursery class/school | School | 3–5 | PT | |
| | Playgroup | Centre | 2–5 | PT | |
| | Childminder | Carer's home | 0–5 | FT and PT | |
| | Reception class (not in Scotland) | School | 4–5 | FT | |
| US | Childcare centre | Centre | 0–5 | FT | No |
| | Family care | Family day care home | 0–5 | FT | |
| | Head Start | Centre | 4–5 | PT | |
| | Pre-kindergarten | School/centre | 4–5 | FT | |
| | Kindergarten | School | 5–6 | FT | |

Sources: Department of Labour 1999, OECD 2001a, 2002d, Petrie et al. 2003

*A place is defined as full-time (FT) if it provides a minimum of 30 weekly hours and part-time (PT) if it covers less than 30 hours a week.

Table 5.2: Early childhood education and out-of-school care provision

| Country and school starting age* | Auspices | Level of provision | Entitlement |
|-----------------------------------|--|---|--|
| <i>Nordic countries</i> | | | |
| Denmark 7(6) | Welfare, education | 0–3: high 3–6: high 6–10: high | Entitlement to full-time childcare 0–6 years |
| Finland 7(6) | Welfare | 0–3: medium 3–6: high 6–10: low | Entitlement to full-time childcare 0–7 years |
| Norway 6 | Welfare, education | 0–3: medium 3–6: high 6–10: low | No |
| Sweden 7(6) | Education | 0–3: high 3–6: high 6–10: high | Entitlement full-time childcare 1–12 years |
| <i>English-speaking countries</i> | | | |
| Australia 6(5) | Federal: welfare and education State: varies | 0–3: low 3–6: low 6–10: low | No |
| New Zealand 6(5)** | Education (0–8) | 0–3: low 3–5: medium/high 6–10: low | No (but target for part-time provision for all 3- and 4-year-olds by 2007) |
| UK 5*** (4) | England and Scotland: education NI and Wales: welfare | 0–3: low 3–5: medium/high 6–10: low | Entitlement to part-time provision for 3- and 4-year-olds |
| US 5–7, 6 most usual | Welfare, education | 0–3: low 3–6: medium 6–10: low | No |

Sources: OECD 2001a, Petrie et al 2003

* School starting age: the first figure is for compulsory school age; the figure in brackets indicates the age at which children may be admitted to primary school on a voluntary basis.

** The information from this table relates to the mid to late 1990s and therefore does not show any changes in levels of provision that might have occurred following the introduction of WFF.

*** In Northern Ireland the compulsory school age is four.

5.4.1 Pre-school services

As discussed, in Nordic countries services for children under compulsory school age are heavily subsidised by the government and charge income-related fees. With the exception of Norway, pre-school provision is available as a right and on demand – from birth in Finland and from 12 months in Denmark and Sweden (the latter two countries have generous and well-paid parental leave and therefore use of childcare for children under the age of one is very low). Family day care is a common form of provision for children under the age of three in Finland and Denmark, but less common in Sweden and Norway (OECD 1999, 2001c). In Sweden 95% of local authorities can offer pre-school places within three to four months of parents applying for a place. According to the OECD (2001a), in Finland the right to a place is “scrupulously respected” and in Denmark only a few local authorities have waiting lists for pre-school services (Petrie et al. 2003). While evidence suggests Denmark and Sweden are the only countries that provide enough places to meet demand, in Finland waiting lists are declining and in Norway addressing shortages in provision for under three-year-olds has become a political priority (OECD 2001a).

In terms of policy making and administrative responsibility, Nordic countries have achieved a high level of integration, which has resulted in a fairly straightforward structure of provision. All pre-school services are fully integrated, administered and provided by the education system. Children under the compulsory school age attend

age-integrated,⁵¹ non-school-based centres that cover the working day and are available all year round, and many children spend their pre-school years in one setting.

Policy and administrative responsibilities for pre-school services is still divided between the welfare and education systems in some English-speaking countries, notably Australia and the USA, where individual states also share some of these responsibilities. In parts of the UK (England and Scotland), responsibilities for pre-school services have been recently unified under the education system,⁵² while this happened in New Zealand in 1986. This historical, and in some cases current, division of responsibilities has resulted in a rather complex structure of services, reflecting the different policy priorities that have influenced provision for pre-schoolers on one hand, and children under three, on the other.

While levels of early childhood education for pre-schoolers (particularly older pre-schoolers) are high, this provision is typically available during term time and is often provided on a part-time basis; weekly hours range from around 12 in the UK and New Zealand (although there are plans to increase these in both countries) to 30 in Australia (OECD 2002a, 2002c, 2002d). In all English-speaking countries provision for children under three is increasing, but is still relatively low. Government-funded provision for infants and toddlers is often targeted at families in need (eg through programmes like Head Start in the US, Sure Start and the Neighbourhood Nurseries Initiative in England). Historically, expansion of this provision for other families has been left mainly to market forces, and has resulted in high costs, which are out of the financial reach of many parents. The complexity of the childcare system of these countries also means that children below compulsory school age might have to change settings as they grow up in order to fit with the structure of an age-segregated system (Kamerman 2000, OECD 2000a, 2001a, Woodland et al. 2002).

5.4.2 Out-of-school services

Even in Nordic countries out-of-school services have been established relatively recently. Generally speaking, levels of provision are low and services loosely regulated. In some countries, several government departments might be involved with this type of service, but there may be no department with overall responsibility. In New Zealand for example, the Ministry of Social Development (MSD) is responsible for providing the out-of-school childcare subsidy to low–middle-income families while the Department for Child, Youth and Family (CYF) is responsible for setting standards the services need to meet in order to qualify for the subsidy. In the USA a federal grant is provided to parents with children under 13 years, but individual states determine eligibility criteria, and the grant can be paid to parents or directly to services. In addition, the US Department for Education provides support for school-based services in areas with a high proportion of low-income families. However, in some countries (Denmark, Norway, New Zealand, England and Scotland) there has been a move to bring responsibility for all or most out-of-school services under the education system (OECD 2000a, 2002d, Petrie et al. 2003).

Out-of-school services are provided in a range of settings, including family care and age-integrated and age-segregated centres. Most provision is based in schools although not necessarily run by the schools. School-based provision is most common

⁵¹ Denmark still has a substantial number of age-segregated centres, but is moving towards more age-integrated provision.

⁵² In England the Department for Education and Skills still shares responsibility for early childhood education and childcare with the Department for Work and Pensions to some extent.

in Australia, Norway, Sweden and Denmark. In the USA and UK schools are now being encouraged to provide a range of services for parents and children, as well as out-of-school care, particularly in disadvantaged areas. New Zealand is one of the few countries where out-of-school care is provided in non-school-based centres. Although data on out-of-school care provision is patchy, the available evidence suggests that only in Denmark and Sweden are levels of provision sufficiently high to meet demand, while in all the other countries levels are low (Petrie et al. 2003).

5.5 How funding policies shape childcare provision

Having explored how different policy priorities have led to rather different childcare systems, we now analyse the relationship between childcare funding and childcare supply more closely, by exploring how funding levels and mechanisms affect:

- the level, type and affordability of available provision
- the responsiveness of childcare services to parents' diverse needs
- the quality of provision
- the prices services charge and the groups they decide to target.

5.5.1 Which childcare markets are considered most "mature"?

A "mature" childcare market has been defined as one where good quality and affordable childcare is widely available and meets parental demand (Petrie et al. 2003). Nordic countries seem most likely to fit this definition, although it has been argued that strictly speaking only Sweden and Denmark can be considered "mature" childcare markets, as the level of supply meets demand in different "market segments" (ie children under compulsory school age and out-of-school care). The Finnish childcare market is "mature" in relation to provision for children under compulsory school age, but not in relation to out-of-school care (Petrie et al. 2003). In Norway there is some evidence of unmet demand for provision for children under three and school-age children; however, provision is relatively high and the level of unmet demand is considerably lower than in English-speaking countries. Even Norway can, therefore, be considered to have a more "mature" childcare market than English-speaking countries. The defining features of these markets are:

- a political commitment to universal full-time (early childhood) provision
- income-related fees
- generous resources allocated mainly through supply-side funding to public or not-for-profit organisations.⁵³

In English-speaking countries there are three "market segments" that need to be considered: services for children under three, early childhood education for pre-schoolers and out-of-school care. Early childhood education for pre-schoolers is widely available but is usually part-time and there seems to have been few incentives (and funding) to develop a full-time service to meet the needs of working parents. For example, it has been argued that in New Zealand the funding system has favoured the provision of part-time services, as "bulk funding" to providers is only available for up to six hours a day per child, and any provision above this limit tends to be considerably more expensive (OECD 2002a). "Wraparound" provision for pre-schoolers is being developed in some countries (eg the UK) to provide a service that better meets the needs of working and student parents; however, these services are still very limited and many parents rely on informal arrangements to cover the gap between the hours they need and what is generally available (Bell and La Valle 2005,

⁵³ A professional workforce is another key feature that characterises these childcare systems, although issues around childcare staff qualifications, salary and working conditions are not covered here.

Woodland et al. 2002). So, in relation to services for pre-schoolers and despite the high level of early childhood education, these markets cannot be regarded as being fully “mature” as they do not meet the needs of working parents.

Historically, the development of other services (ie day care for children under the age of three and out-of-school care) has been encouraged mainly through the provision of demand-side funding, usually targeted at specific groups (eg low–middle-income families). The assumption behind this strategy is that giving parents greater purchasing power will stimulate an increase in supply, make services more affordable and give families greater choice over the type of provision that better meets their needs. However, it has been argued that a completely market-driven system could only work in a “perfect” market and childcare markets are far from perfect, as “consumers” lack the financial resources and the information about services (Dickens et al. forthcoming, Harries et al. 2004, Verry 2000).

Evidence from the UK and the USA shows that market-driven approaches can lead to the uneven development of services, resulting in shortages in poorer areas where parents can not afford high prices, and rural and low population density areas where demand is very scattered. Commercial and even not-for-profit providers typically encounter considerable difficulties in running a financially viable service under these circumstances (Dickens et al. forthcoming, Harries et al. 2004, OECD 2000a). Similarly, in Australia in the early 1990s, childcare subsidies were extended to parents using commercial provision. This resulted in an uneven growth with oversupply in some areas and gaps in others, such as in services for under three-year-olds (which are considerably more expensive than other types of provision) and in poorer areas. Additional incentives had to be provided to encourage the development of provision in disadvantaged communities, and to support the viability and sustainability of services catering mainly for poorer families. The UK and USA have also had to intervene to deal with similar problems, although it is not yet clear to what extent these policy interventions are working and whether market-driven approaches are suitable to expand provision for the most disadvantaged groups (Dickens et al. forthcoming, Harries et al. 2004, OECD 2001a). In the UK in particular, a large supply-side funding programme (the Neighbourhood Nursery Initiative) providing start-up funding has recently been introduced to expand day-care provision. Early findings show that the programme has led to a substantial increase in day-care provision and has reached some of the most disadvantaged families, suggesting that a combination of supply-side and demand-side funding might be more successful than a strategy that relies mainly on the latter. However, supply-side funding under this programme only covers a limited period (three years), and it remains to be seen whether this strategy can lead to long-term sustainable provision, particularly in the poorest areas and among services trying to reach the most disadvantaged families (Bell and La Valle 2005, Harries et al. 2004, Smith et al. 2005).

5.5.2 How responsive are different markets to parents’ needs?

One of the arguments put forward in favour of demand-side subsidies is that they give parents the opportunity to “shop around” and choose the service that best meets their needs. However, there is some evidence to suggest that this is not always the case, and many parents in English-speaking countries still report difficulties in finding the type of service they need. For example, difficulties are reported for childcare at irregular hours (for parents with variable working hours) and at atypical hours, as a substantial minority of parents now work evenings and weekends (Harries et al. 2004, La Valle et al. 2002, OECD 2000a, 2001a, 2002c).

Research on childcare services shows that providing the flexibility some parents require (eg different types of part-time arrangements, allowing parents to regularly change their requirements, a flexible booking system) can be very expensive and not financially viable for most providers. Providing childcare at atypical hours is also usually not financially viable. A problem associated with provision of a service at non-standard times is to find a sufficient number of parents who need childcare at the (same) atypical hours. The nature of some atypical work (eg shift work) means that parents' requirements can change frequently, and sometimes at short notice. This can make it hard for providers to utilise their staff efficiently. It can also prove difficult to find childcare staff prepared to work at atypical times, particularly as many of them have young families. Furthermore, childcare at atypical hours tends to be more expensive to provide (staff need to be paid at higher rates for these hours), but many of the parents who need this kind of provision are in low-paid jobs and least likely to be able to afford high fees. These studies conclude that current funding mechanisms in the UK are probably not adequate to meet parents' needs for flexible and atypical hours care, and new solutions need to be found (Harries et al. 2004, La Valle et al. 2002, Statham and Mooney 2003).

While with high levels of full-time provision for pre-school children, parents in Nordic countries receive a better service than their counterparts in English-speaking countries, the rigidity of some services has caused problems. In Denmark for example, opening hours are determined by the local authority or parents' board, but few services open beyond 5 pm and this has been a cause of concern for parents and employers (OECD 2002c).

5.5.3 The relationship between childcare cost and quality?

This section considers the relationship between childcare costs and quality, and how funding might affect the level and quality of provision.

Much has been written about the quality of childcare and the complexities involved in defining and measuring quality, particularly in a cross-national context (for a review see Mooney et al. 2003). However, all available evidence suggests that good-quality childcare is not cheap, and that high standards are associated with high costs (Vandell and Wolfe 2000). More detailed analysis of the relationship between quality and costs is scarce and studies that have attempted this have several limitations (see Vandell and Wolfe, 2000 for a review of this work). However, in the US, attempts to estimate the impact of raising quality on costs show that, for example, a 25% increase in service quality (from mediocre to good) is associated with an approximate 10% increase in costs (Vandell and Wolfe 2000).

An increase in quality therefore means that services become more expensive to provide. The extent to which the childcare market is affected depends largely on the level of childcare funding available. Nordic countries, with high levels of childcare funding, have been able to achieve high standards and high levels of provision. High quality combined with low funding levels can inhibit demand and therefore supply: New Zealand is considered to have high standards – this has resulted in high fees which seem to have discouraged childcare use, for example, among middle-income parents, who until recently were not entitled to any subsidies (OECD 2002c). However, affordability problems are widely reported by parents in all other English-speaking countries reviewed, even though quality standards in these countries are not generally considered to have reached the same level as in New Zealand (OECD 2001a).

The extent to which raising quality can inhibit demand and therefore supply depends largely on funding strategies. Recent developments in Nordic countries show that with adequate funding it is possible to increase childcare provision and quality. Conversely, when an increase in provision is not supported by adequate funding, the quality of care can be negatively affected. For example, in Sweden in the early 1990s, childcare services rapidly expanded to fulfil the government's commitment to provide places for all pre-school children of working parents. This expansion coincided with a period of strict budgetary constraints, and existing staff and facilities were stretched to create the new places; this led to a (temporary) quality decline in the staff:child ratios and facilities (OECD 1999). There is also evidence that inadequate childcare subsidies can mean that parents end up using low quality provision. For example, in the USA, where good-quality childcare is usually more expensive than lower-quality provision, and where federal and state tax credits cover only a fraction of the childcare costs, many low-income families can afford only low-cost childcare (Peisner-Feinberg et al. 2000).

Evidence from English-speaking countries suggests that in monitoring how changes in the childcare market might affect quality, the role of for-profit providers needs to be considered. Commercial services tend to score lower than state-run and not-for-profit services in critical factors influencing quality, including number of qualified staff, staff pay and parental involvement (Mitchell 2002). Research has also found that for-profit services score lower on quality assessments than state-run services and most not-for-profit providers (Sylva et al. 2004). As noted elsewhere (Mitchell, 2002), the potential negative impact that for-profit services can have on the quality of provision can be tempered by applying stringent regulations for teacher qualifications, staff: child ratios and group size.

Finally, an increase in quality is often associated with an increase in staff numbers (to improve staff:child ratios) and/or their qualifications. This can affect the provision of childcare if the supply of staff is not sufficient to meet the requirements of higher-quality provision. This is currently a concern in the UK where the government has had to intervene to ensure sufficient staff will be available to support planned increases in both the level and quality of provision (HM Treasury 2004).

5.5.4 Can subsidies lead to market "distortions"?

Finally, there is a concern that the changes in childcare assistance introduced in New Zealand as part of WFF (that is, an increase in subsidy levels and the number of eligible parents) might "distort" childcare markets. For example, they could give providers a monopoly position, if in some local childcare markets an increase in demand is not matched by an increase in supply. This could in turn lead to a rise in fees (not reflected in service improvements). Nordic countries are not really affected by this issue, as the high level of government intervention means that fees are not really influenced by market forces. However, even in English-speaking countries where private providers and market forces play such a predominant role there is no evidence of this kind of market "distortion". This is probably because in many English-speaking countries the level of subsidy is not very high, and even with subsidies some parents cannot afford the "market price" of childcare (Harries et al. 2004, Dickens et al. forthcoming, Peisner-Feinberg et al. 2000). In response to these problems the UK has recently announced an increase in childcare subsidy levels (the childcare element of the Working Families' Tax Credit), but these changes are too recent to evaluate. In 2000, Australia increased childcare subsidies to what is considered a relatively generous level, but there is no evidence that this has affected childcare fees, partly because, as discussed later, this has not resulted in a great increase in demand.

There is also a concern in New Zealand that giving greater “purchasing power” to eligible parents could result in a displacement of families not entitled to the childcare subsidies, if providers find it more financially advantageous to cater for subsidised parents. We found no examples in the literature of subsidies of this effect on childcare markets; again probably because subsidy levels are often insufficient to meet the “market price” of childcare. For example, in England early results from the Neighbourhood Nursery Initiative (which aims to expand day-care provision through a mix of supply-side and demand-side funding) show that “traditional” day-care users, (ie affluent working parents), were over represented in neighbourhood nurseries. The main concern here, as with many other similar initiatives, is to ensure they benefit disadvantaged families, who are least likely to use childcare services (Bell and La Valle 2005).

As has been shown, the extent to which increases in childcare subsidies lead to the kind of market “distortions” is likely to depend on the level of subsidy and how it relates to the childcare market price. Market “distortions” are probably more likely to arise where commercial providers are important market players. Given the predominance of community-based, not-for-profit services in New Zealand, it seems unlikely these problems will occur; these services are largely not profit driven and have been set up to cater for the needs of local communities or specific groups (for example, Māori or Pacific peoples). However, the UK experience shows that intervention and support at the local level is needed to ensure provision is expanded in line with local needs and reaches those least likely to access childcare in the past (Bell and La Valle 2005, Dickens et al. forthcoming, Harries et al. 2004, Smith et al. 2005).

5.6 Participation in early childhood education and out-of-school care

This section provides an overview of patterns of participation in early childhood education and out-of-school care, and of variations among different groups. One of the key questions addressed by the review is then considered – if and how subsidies affect the demand for childcare.

5.6.1 Variations in patterns of childcare participation

Predictably, patterns of participation closely reflect childcare policies and funding strategies. Participation is higher in the types of provision that historically have been given higher priority and are heavily subsidised – for example, full-time early childhood education in Nordic countries and part-time early childhood education for pre-schoolers in English-speaking countries; while participation is lower in forms of provision given lower priority and funding – for example, out-of-school care in most countries and services for children under three in English-speaking countries (OECD 2001a). While it is difficult to establish cause and effect (given the complexity of childcare markets and the influences that have shaped them), these patterns suggest that demand for childcare can be supply driven, particularly if the supply is supported by generous public funding.

In all countries participation levels vary between different groups. Participation is strongly associated with a child’s age, for a range of reasons. Policy priorities and funding relating to different age groups have certainly contributed. Normative expectations about the suitability of non-parental care for children at different life cycle stages also play a part. In Nordic countries early childhood education is considered very important for a child’s development, while in English-speaking

countries debates about the possible negative effects of non-parental care on infants and toddlers are still common (Kamerman 2000, OECD 2001a). Family-friendly policies can also influence patterns of participation among different age groups; for example, in Nordic countries where paid parental leave covers (at least) the first year of a child's life, participation in early childhood education among children under one is very low (OECD 2001a).

There are other factors associated with variations in childcare participation.

- Family income: As noted earlier, in English-speaking countries children from low-income families are far less likely to attend early childhood education. This is closely linked to affordability and therefore is not a major issue in Nordic countries where fee levels are income related.
- Maternal employment: Among children under three and school-aged children participation levels are closely linked to mothers' employment status.
- Ethnicity: In England children from some ethnic groups are less likely to attend early childhood education. For example, around a fifth of Pakistani and Bangladeshi children and just over a third of Black African children attend early childhood education, compared with nearly half of their white counterparts (Bell, Bryson et al. 2005). In New Zealand participation levels are lower than average among Māori (53%) and Pacific children (48%), compared to European descent pre-schoolers (66%) (Department of Labour 1999). Similar ethnic differentials are noted in Australia and the US, while in Nordic countries lower than average participation levels are found among children from immigrant families. For example, in Denmark, while overall nearly two-thirds of pre-school children are in day care, less than 40% of children from immigrant families attend a day-care centre (OECD 2002a).
- Geographical location: Children in rural and scarcely populated areas have lower than average participation rates; this may partly reflect the lack of adequate services in these areas (OECD 2001a).
- Special educational or medical needs: Children from this group can also be less likely to attend early childhood education, although the extent of their representation depends largely on the level of additional support available for this group (OECD 1999, 2001a, Ministry of Education 2002, Woodland et al. 2002).

5.6.2 Do subsidies affect demand for childcare?

Affordability has been identified as a key barrier to childcare use in English-speaking countries reviewed. This is a problem likely to affect low-income families and the most disadvantaged groups particularly; for example, sole parents, ethnic minorities, parents with low educational levels (La Valle et al. 2000, OECD 2000a, OECD 2001a, OECD 2002c, OECD 2002d and Woodland et al. 2002). Evidence is mixed however, on the extent to which childcare subsidies can help increase demand for and use of childcare among different groups (see box 5.1).

Box 5.1 Examples of effect of subsidies on childcare demand

In **Denmark** in the early 1990s, childcare subsidies were increased and parental contribution was reduced from 35% to 30% of childcare costs. A substantial “sibling reduction” was also introduced. These measures led to a sustained increase in participation in early childhood education: between 1989–1999 there was an 0.8% annual increase among 0–2-year-olds and 1.7% increase among 3–5-year-olds (OECD 2002c).

In 1999 in the **United Kingdom** childcare subsidies, in the form of tax credits for low- to middle-income families, were increased substantially. Early evaluations suggest they had a limited impact on demand for childcare (McKay 2001, Paull and Brewer 2003). Several problems were identified with the subsidy system, which were believed to have limited its effect on childcare demand, and changes were subsequently introduced to tackle these problems. For example, initially mainly sole parents benefited from these subsidies, and in 2003 eligibility was extended to a greater number of families (including many two-parent families). Another criticism was that the subsidies were not sufficiently high to make childcare affordable, particularly for those needing a high level of provision or living in areas where childcare costs were high; the level of subsidy has since been increased. Furthermore, subsidies alone were found not to be sufficient to stimulate supply, and two major programmes (Sure Start and the Neighbourhood Nursery Initiative) were introduced to expand childcare provision in the most disadvantaged areas. Early results indicate this strategy has led to an increase in childcare use, particularly among key target groups (Bell and La Valle 2005, Smith et al. 2005). While it has been argued that the problem of affordability has largely been resolved in **Australia** with the introduction in 2000 of the CCB, participation levels remain relatively low, reflecting difficulties in developing an adequate infrastructure, but also a preference for parental care by many parents (OECD 2002c).

The evidence suggests a number of factors can “mediate” the effects of subsidies and contribute to their success or failure. Subsidies to parents alone are unlikely to be successful as, while these may stimulate demand, there is no guarantee the increase in demand will be matched by an increase in supply. As the Danish example shows, an increase in subsidies can lead to an increase in demand **and** supply where there is an adequate infrastructure in place. In English-speaking countries, where the infrastructure is less well developed and has historically been geared mainly towards meeting the needs of more affluent parents, government intervention and some supply-side funding are likely to be required to ensure an even expansion of provision to meet the demands of different groups, and particularly the needs of more disadvantaged families.

Level of subsidies is also crucial; a large body of evidence shows a very strong link between childcare price and use. As has been shown, the highest participation levels are in countries with the most generous funding levels. In the UK the inadequacy of the subsidy level (as well as the limited number of people eligible for subsidy) contributed to its very limited success in increasing demand (before the recent reforms were introduced).

However, the Australian experience shows that even when subsidy levels are adequate to make childcare affordable and accessible across different groups, they may have a limited effect on demand because of normative expectations regarding the role of parents, the role of informal carers (grandparents in particular) and the use

of formal childcare. Cultural values and attitudes towards parenting, grandparenting and formal childcare are shaped by a very complex interplay of factors. Some evidence suggests however that these can be influenced by, among other things, government childcare policies, which can, for example, contribute to “normalising” the use of formal childcare (Harris et al. 2004). As shown, early childhood education is considered very important to a child’s development in Nordic countries, which have a long history of political commitment and public investment in childcare. In English-speaking countries, with a shorter and more “patchy” history of childcare intervention, debates about the possible negative effect of non-parental care on very young children are still common. While recognising that childcare policies can help influence parents’ attitudes towards non-parental care, it is also important to be aware of and sensitive to parents’ views on the use of childcare and the needs of their children (for example, their reluctance to use non-parental care or formal provision before children reach a certain age), as policies that do not take these into account might not be very effective (Bell, Finch et al. 2005).

Attitudes towards parental and grandparental care, and views about the role of formal provision, vary among different ethnic groups and can partly explain some of the differences in participation levels among children from different ethnic groups. While most ethnic groups are over-represented among low-income families and the availability of subsidies is likely to remove a major barrier to participation, the development of culturally sensitive services can contribute greatly to the increase in participation among children from these groups. For example, in New Zealand between 1987 and 1996 participation in early childhood education among Māori and Pacifica children trebled. It has been argued that this was due largely to the development of services, such as Kōhanga Reo and Pacific early childhood groups, which are totally immersed in the language, values and culture of the two respective groups (Meade 1999).

Finally, when assessing the impact of subsidies on childcare demand and use, the question of substitution needs to be considered. It is necessary to assess if and to what extent subsidies lead to an increase in childcare use or to the substitution of one form of care for another. For example, subsidies might enable or encourage parents to switch from informal care to formal provision, or from a relatively cheap service to a more expensive one⁵⁴. This issue has attracted little attention so far and there is very little evidence available to explore possible “substitution effects”. Evidence from the UK and USA shows that overall expansion of formal services has been followed by a decline in informal arrangements (OECD 2001a, Woodland et al. 2002). However, in England a study of the initial impact of the Neighbourhood Nursery Initiative programme, aimed at expanding affordable day care for disadvantaged families (many of whom use childcare subsidies to access this provision), shows a more complex picture.

- Forty percent of parents were not using any type of provision before they started using the Neighbourhood Nursery, while the others were already using some form of care (26% informal, 20% formal, and 14% a combination of the two).
- Changes in type of provision reflected a move from term-time and/or part-time provision to care that was available all year round and for a greater number of hours.

⁵⁴ This is a concern when the main aim of the subsidies is to increase parental employment. The substitution of informal with formal care is generally viewed as positive, if the aim of the subsidies is to increase participation in early childhood education because of the benefits associated with this. Similarly a move to more expensive provision would also be regarded as positive, if this means a move to a higher quality service.

- Some parents continued or even started to rely on informal arrangements, alongside the Neighbourhood Nursery, to “glue” together their formal arrangements (Bell and La Valle 2005).

The above results illustrate the complexities involved in exploring possible substitution effects; this analysis needs to consider changes not only in the type of care used, but also the amount and suitability in meeting the needs of parents and children. Furthermore, the formal provision versus informal care dichotomy might not prove a useful way of thinking about substitution effects, as some parents are very likely to continue to rely on informal arrangements, at least as a contingency solution, in addition to using formal provision. Finally, if one of the aims of childcare subsidies is to improve outcomes for children, any changes in the quality of childcare also need to be considered, as subsidies might enable parents to use higher quality provision (this issue is discussed in more detail in section 6).

5.7 Parental employment

As discussed, there is a strong association between patterns of childcare use and maternal employment. While all the available evidence suggests that there is a causal relationship, it can be difficult to determine the direction of this causation. It is very likely that causality between employment participation and childcare use runs in both directions: mothers’ desire to take up paid employment increases the demand for childcare; at the same time the provision of (affordable) services can lead to an increase in maternal employment as it makes it possible and financially advantageous for mothers to go out to work.

5.7.1 Trends in maternal employment in different countries

Among the countries reviewed, Nordic countries have the highest levels of maternal employment although in some of these countries there are variations between sole and partnered mothers. In Norway 79% of partnered mothers are in the labour force, compared with 69% of sole mothers, although the latter are more likely to work full-time (Millar and Rowlingson 2001). In Finland 80% of mothers in couples are in paid employment and 50% of sole mothers are employed. (Clearinghouse of International Developments in Child, Youth and Family Policies 2004). In Denmark nearly three-quarters of sole mothers are in paid work, marginally more than the employment rate of mothers generally (OECD 2002c).

Maternal employment levels are lower in English-speaking countries, although again considerable differences emerge between sole and partnered mothers. In Australia, New Zealand and the UK around half of sole parents are in paid work compared with 60%–70% of partnered mothers (Department of Labour 1999, Millar and Evans 2003, OECD 2002a). The situation is reversed in the United States where sole mothers are more likely to be in employment than other mothers, although there is considerable difference between sole mothers who were previously married (nearly 80% in work) and sole mothers who never married, whose level of participation in employment is similar to that of married mothers (around two-thirds) (Millar and Rowlingson 2001).

5.7.2 Effects of childcare subsidies on parental employment

As well as leading to an increase in childcare demand, subsidies have been found to have a considerable positive effect on maternal employment. There seems to be a clear link between childcare and funding policies on the one hand, and mothers’ employment on the other (Verry 2000).

Some studies within specific countries have also found a direct link between (reductions in) childcare fees and maternal employment rates. For example, in the United States it has been estimated that a 10% reduction in the price of childcare could result in:

- a 9% increase in the probability of employment among partnered mothers
- a 3.5% increase in the likelihood that sole mothers in poverty might take up paid work
- an increase in the probability of employment of 14% among white sole mothers and 4% among black sole mothers (Verry 2000).

In the UK simulations of the impact of increasing childcare subsidies (tax credits to low- to middle-income families) show these are likely to result in 3% of non-working sole mothers moving into part-time employment and a further 3% moving from part-time into full-time work. Corresponding increases for partnered mothers are more modest (0.6% moving from no work to part-time employment and 0.5% from part-time to full-time work) (Paull and Taylor 2002).

The evidence also suggests that childcare subsidies can help to support sustainable employment. For example, a US study of mothers who received childcare assistance as part of a welfare-to-work programme showed that the childcare arrangements they made to enter paid employment were very stable. The study concluded it was rare for childcare instability to lead to employment instability, while the opposite is more common, ie mothers changing their childcare arrangements following a change in employment circumstances (Miller 2005).

The above evidence shows that subsidising childcare can impact on participation in employment among mothers – sole and low-income mothers in particular. However, it must be noted that in all the countries reviewed a range of other initiatives have been introduced in recent years that are very likely to have affected childcare provision (eg developing support systems for co-ordinating and supporting childcare services and increasing quality standards) and the employment behaviour of mothers (eg welfare-to-work programmes and family-friendly policies). Even in the United States, where welfare-to-work programmes (including childcare assistance) have been evaluated using randomised trials, it is not possible to isolate the effects of childcare subsidies because these are offered as part of a package of employment measures (these are discussed in more detail in section 6.4). It is therefore difficult, if not impossible, to assess the impact of the subsidies if these additional initiatives had not been introduced. However, all the evidence suggests that, as with supply, subsidies alone might not be sufficient to increase the demand and use of childcare and parental employment and, in order to be effective, subsidies need to be supported by a range of other childcare and employment initiatives.

5.7.3 Other facilitators and barriers to combining childcare and work

This section reviews other factors, in addition to childcare costs (and subsidies), that influence parents' willingness and ability to use childcare and take up paid employment. The role of childcare information and quality is discussed and the possible role of employment policies considered.

Information (or lack of it) about childcare services and the availability of childcare subsidies has been found to affect parental choices of childcare use; this can in turn affect decisions about work (Bell, Finch et al. 2005, Millar and Rowlingson 2001). For example, a recent study in the UK showed that lone parents found the available

childcare information was “bitty” and “disjointed”, and thought that in order to be useful and effective this information should be available from a single, well-publicised and easily accessible source. There was also a strong preference for information provided by other parents; for example, through local parent networks, which could be provided alongside other formal sources. Lone parents suggested that information on childcare could be complemented with advice when they entered work; for example, a “bumper pack” of information sent annually to parents and a free phone advice line advertised on television. The key message from this study was that advice and support on work, childcare and other issues should be integrated, and be holistic and sensitive to the needs and desires of the individual parent (Bell, Finch et al. 2005).

Evidence also suggests that childcare quality affects maternal employment (Vandell and Wolfe 2000) and the likelihood of using childcare services (Bell, Finch et al. 2005, La Valle et al. 2000, Woodland et al. 2002, Finch and Gloyer 2000). As has been noted elsewhere:

Mothers are much more likely to use early childhood education and return to work if they are confident that high quality stimulation and learning is being provided rather than simply childminding. (Verry 2000:106)

Employment policies can also play an important role in affecting parents’ labour market behaviour. Mothers have different levels of orientation towards work and towards parental care. Being able to achieve the right balance is crucial for many parents, who would not, for example, be prepared to go out to work if this meant spending too much time away from their children, or returning to work when their children are too young. This means childcare policies alone will not be sufficient to increase employment participation among mothers with a strong orientation towards parental care, even among those who also have a strong work orientation, as paid employment might create too many tensions. All available evidence suggests that family-friendly employment policies are required alongside childcare assistance so that mothers can achieve what they consider is the right balance between time at work and time with their children. In the Nordic countries, as with childcare, family-friendly policies are more progressive and supported by generous funding (eg for extensive parental leave), and levels of maternal employment are highest. These countries have a high level of synergy between childcare and family-friendly policies. For example, in Denmark and Sweden paid parental leave is available for 12 months after the birth of a child, and children are entitled to a publicly funded early childhood education place from the age of one. Finland and Norway emphasise parental choice more, so while childcare leave or cash benefits allow parents (usually mothers) to stay at home and look after their children until they are two or three, publicly subsidised services are available for infants and toddlers as well as pre-schoolers.

What is considered the right balance is subjective, and policies need to be sufficiently flexible to meet the needs of different parents and children, something that can determine not only the effectiveness of family-friendly policies, but also of welfare-to-work programmes. For example, a comparison of welfare-to-work programmes targeted at sole parents in the UK (the New Deal for Lone Parents) and New Zealand (the Enhanced Case Management System) found the latter was more effective, particularly in helping lone parents at a greater distance from work, partly because it was holistic and client led and was seen as having something to offer each individual (Bell, Finch et al. 2005, Millar and Evans 2003).

5.8 Overview

This final section considers the possible implications of the findings from the section for research that will be contracted to evaluate the WFF programme in New Zealand.

Countries with the highest levels of childcare provision, childcare use and maternal employment are countries with childcare policies and funding systems rather different from those of New Zealand. Countries which, like New Zealand, have not historically had high levels of funding and political commitment to childcare are lagging behind in terms of childcare supply, use of services and maternal employment. While services in all English-speaking countries have expanded considerably in recent years, they have some way to go before they become “mature” childcare markets, where good quality and affordable early childhood education and out-of-school care is widely available and meets parents’ needs. The evidence also shows that attempts to expand childcare services by adopting a market approach can create some problems and not always lead to the desired outcomes.

Previous research has shown that in assessing how the supply of childcare might be affected by subsidies in a market where the private sector plays a dominant role, the following need to be considered and monitored.

- Geographical distribution of supply: Market forces can lead to an uneven growth and under-supply in areas where a service might be less profitable or not financially viable.
- Growth of provision for children of different ages: Again it can be less profitable to provide services that require high staff levels (for example, for under three year olds).
- Flexibility of provision: Providing a flexible service can be expensive, and therefore less profitable, and even when services are not-for-profit it might not be financially viable to provide the level of flexibility some parents require.
- Provision of services at atypical hours: This can be particularly problematic for the reasons outlined earlier and the evidence seems to suggest that no satisfactory way of delivering this type of provision has yet been found.
- Impact on quality: This can be affected by staff shortages, but the evidence also shows that if subsidies lead to a growth in commercial services, quality could be affected, and it is particularly important to monitor aspects of quality that are not tightly regulated (for example, parental involvement).

On the demand side, in assessing the effects of childcare subsidies, it seems important to consider:

- how affordable childcare becomes for different groups and for different types of provision. As discussed, even with the availability of subsidies, affordability can remain an obstacle to access among some families
- how the availability of subsidies might be mediated by access to family-friendly working arrangements (or lack of them). The evidence clearly shows the availability of affordable childcare alone might not be sufficient to enable or make it acceptable for all parents to work
- how subsidies might affect patterns of childcare use. As discussed, detailed information is required to assess any changes in the type and quantity of care used and why the subsidies might have enabled or encouraged parents to change their arrangements (eg to set up arrangements that better fit with their work, to get a better quality service, to move to a type of care that is considered more suitable for the children)

- how attitudes towards parenting and non-parental care might mediate the effects of subsidies among different groups and what, if anything, might contribute to affecting attitudes towards childcare services. The evidence suggests that the quality of the available provision and information about services could play an important role in this respect.

6 Child outcomes

One of the key aims of WFF is to reduce child poverty, and by doing so the programme is expected to have an impact on a range of child outcomes that have been found to be closely linked to child poverty. The intention of this section is to provide an international review of the evidence on:

- child outcomes associated with growing up in an income-poor family
- the main determinants of child poverty
- the effectiveness of different types of policy intervention in reducing child poverty and improving different aspects of children's lives.

The key countries covered were outlined earlier in section 5.5.1.

This section defines the child outcomes commonly identified as areas for policy intervention, and then focuses on child poverty, a key child outcome. Child poverty has attracted considerable attention in recent years, as it is strongly associated with a range of other negative outcomes for children. The correlates of child poverty and other negative child outcomes are explored, with a focus on parents' labour market position, family structure, ethnicity and teenage parenthood. The possible causes of child poverty and other associated negative outcomes can be extremely complex. Policy efforts to reduce (or even eliminate) child poverty and improve children's wellbeing and life chances need to reflect this complexity and be multi-faceted. As pointed out elsewhere:

Children are kept in poverty, not by a padlock to which there is a single key, but by a combination lock that requires an alignment of factors if it needs to be released. (UNICEF 2000:16)

In the last part of the section we focus on two areas of policy intervention that have been found to have a considerable impact on children and are particularly pertinent to the WFF programme: promoting parental employment and participation in childcare.

6.1 Defining child outcomes

In recent years, children's development and wellbeing have been pushed high on the political agenda. This represents partly a shift in attitudes about the extent to which children are regarded as a public responsibility (rather than a private one). There is also growing recognition that the failure to intervene to improve the environment in which children grow up (and reduce child poverty in particular) is partly responsible for many of the problems industrialised countries face, such as educational under-achievement, drug abuse, crime and antisocial behaviour, and alienation from common values.

In addition to child poverty, there is a range of other outcomes that are identified as priorities for government intervention and are closely monitored. These include child abuse and neglect, unsatisfactory child development (socio-emotional, physical and cognitive), a range of health measures (eg low birth weight, infant mortality, drug and alcohol abuse, depression), crime and antisocial behaviour, and teen pregnancy. Box 6.1 highlights the action areas identified in the Agenda for Children strategy in New Zealand and the different domains of children's lives that will be regularly monitored to assess progress in improving different child outcomes. These are typical of the policy intervention areas identified by other countries included in the review.

Box 6.1 Aims and indicators of the New Zealand Agenda for Children

The Agenda for Children: Making Life better for Children aims to improve all aspects of children's lives and has set out a number of "action areas", which include:

- promoting a whole child approach
- increasing children's participation
- ending child poverty
- addressing violence in children's lives, particularly bullying
- improving central government structures and processes to enhance policy and service effectiveness for children
- improving local government and planning for children
- enhancing information, research and research collaboration relating to children.

A range of indicators of children's wellbeing have been identified and will be regularly monitored. These cover the following areas:

health (low birth weight, infant mortality, immunisation, obesity, hearing and oral health at school entry, smoking, drinking and drug use, depression and suicide, teen pregnancy)

care and support (child abuse and neglect, relationship with parents)

economic security (children living in low income families, low living standards, food security, youth unemployment, earning levels, youth economic activity and unemployment)

safety (injury mortality rates, intimidation at school, youth criminal victimisation, youth road casualties and youth perceptions of safety)

education (participation in early childhood education, reading, maths and science literacy levels, truancy, young people leaving school with no qualifications, tertiary qualification completion rates)

civil rights (young people voting in national elections)

justice (police apprehensions of 14–16 year olds, cases proved in the Youth Court)

culture and identity (young Maori who can speak te reo Māori)

social connectedness (home internet access, participation in sport and active leisure)

environment (household crowding).

Source: MSD 2002

As has been pointed out before (Phipps 1999), while most industrialised countries share the same concerns and goals regarding children's wellbeing, the policies and funding levels aimed at improving children's lives and opportunities can vary considerably. This has resulted in wide variations in child outcomes in countries with similar levels of economic development. Nordic countries have consistently good (and in many cases still improving) outcomes on the main indicators of child wellbeing, including low child poverty, low school drop-out rates, low levels of child abuse and neglect, and good levels of academic achievement. They are also generally regarded as having gone a long way in giving children the rights enshrined in the United Nations Convention on the Rights of the Child (Kamerman et al. 2003). In contrast, poor outcomes for children in some key areas have raised considerable concern in the English-speaking countries covered by the review. Child poverty is perhaps the area of greatest contrast between Nordic and English-speaking countries, and this is explored in more detail below.

6.2 Child poverty

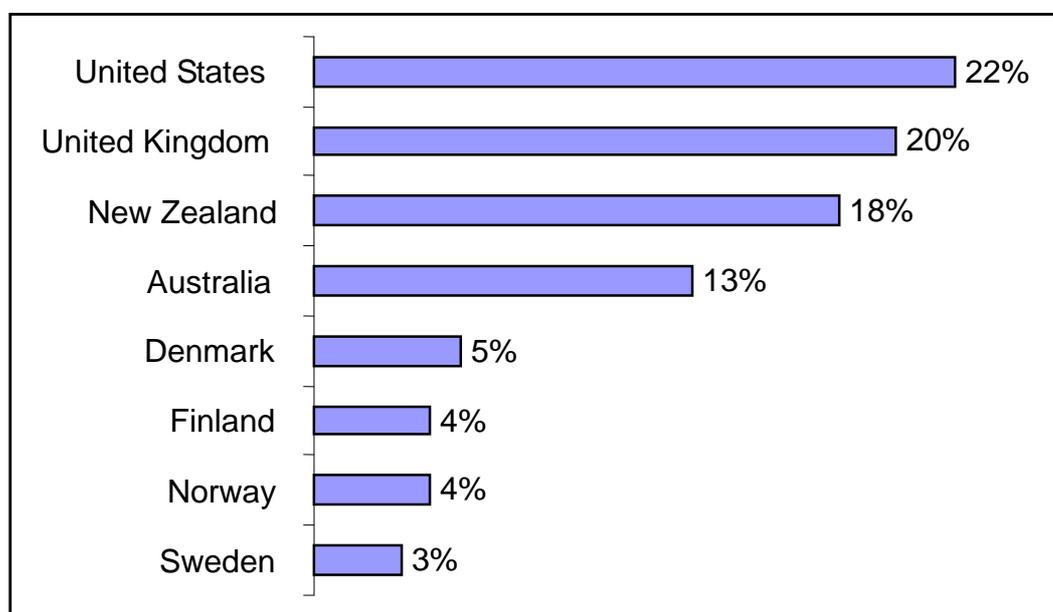
Much has been written about how (income) poverty should be defined and measured. In terms of definition, poverty can be defined as absolute (the inability to buy a fixed minimum package of goods and services) or as relative (falling behind, by a certain degree, the average income and life style enjoyed by the rest of the nation). The latter is the most common definition and also the one used by the New Zealand

Government to measure child poverty (Ministry of Social Development 2002). Relative poverty is considered to be more useful in understanding the key concern: *Once economic development has progressed beyond a certain minimum level, the rub of the poverty problem – from the point of view of the poor individuals and the societies in which they live – is not so much the effects of poverty in any absolute form but the effects of the contrast, daily perceived, between the lives of the poor and the lives of those around them.* (UNICEF 2000:9)

When drawing on international evidence there is also a more pragmatic reason for focusing on relative poverty: the lack of a commonly used and generally accepted definition and measure of absolute poverty. It is important to note, however, that given the complexities involved in understanding the determinants of poverty and in identifying effective measures to reduce it, an increasing number of countries have started to monitor a range of poverty measures. The range includes absolute and relative poverty measures, together with non-monetary indicators of deprivation. In the UK, for example, progress in reducing child poverty is measured by using both absolute and relative incomes, and a set of other indicators, which include poor housing conditions, children’s unintentional injuries, teenage pregnancy and low educational achievement (UNICEF 2000).

As shown in figure 6.1, child poverty levels are very low (5% or below) in Nordic countries, while in the UK and USA one in five children live below the poverty line. Furthermore, while child poverty rates have been declining consistently in most Nordic countries (Denmark, Norway and Sweden), in the UK and USA they had been increasing until relatively recently (Bradbury and Jantii 1999, Kamerman et al. 2003, UNICEF 2000).

Figure 6.1 Percentage of children living in households with income below 50% of the national median



Note: The New Zealand figure is for 2001 and the figure for Denmark is for 1992; all others are from 1995–1997. Source: MSD 2002, UNICEF 2000

The need to distinguish between different types of child poverty according to the way the experience of poverty is distributed over time and to what extent it is continuous has also been highlighted, as this can have significant implications for children’s

wellbeing. By analysing the number and duration of poverty and out-of-poverty spells, Ashworth et al. (1994) developed the following typology of child poverty.

- Transient: One spell of poverty lasting one year.
- Persistent: One poverty spell lasting over one year combined with at least one out-of-poverty spell.
- Permanent: One poverty spell lasting continuously for 15 years.
- Occasional: Repeated poverty spells all lasting one year.
- Recurrent: Multiple poverty spells (with some lasting over one year) interspersed with out-of-poverty spells (with some lasting over one year).
- Chronic: Multiple poverty spells (some lasting over one year) interspersed with short out-of-poverty spells (lasting one year).

Children are more likely to experience persistent poverty than other age groups. Again this varies considerably across countries: the US has the highest rates of persistent child poverty – 14% of children live in poverty for two consecutive years, 9% for five consecutive years and 6% for ten consecutive years (Bradbury et al. 2001a). As has been pointed out elsewhere, given the variations in the nature and severity of the impact on children of different types of poverty, monitoring changes in different types of poverty is very important (Kamerman et al. 2003).

There is increasing evidence on the negative impacts poverty has on many aspects of children's lives and how these can persist into adulthood. This evidence has contributed to putting child poverty and wellbeing on the political agenda, even in countries where children have traditionally been regarded as a private responsibility and where, with the notable exception of education, governments had been reluctant to intervene except in more extreme circumstances. Research has consistently shown that children living in poverty are more likely to experience poor health, score lower on standardised IQ and achievement tests, and have higher drop-out rates from school (Gennetian and Miller 2002, Kamerman et al. 2003, UNICEF 2000, Waldfogel 2004). These effects are particularly strong for children who experience persistent poverty, who live in poverty when they are very young and live in very poor families. Longitudinal studies have also shown that the negative effects of child poverty can persist into adulthood, leading to poor academic achievement, unemployment, under-employment, poor mental and physical health, crime, antisocial behaviour and teenage pregnancy (Kamerman et al. 2003).

In recent years there has been a growing focus on the social and economic correlates of child poverty to identify the risk factors and appropriate policy interventions. All the evidence points to complex dynamics that lead to child poverty. Explanations for child poverty have focused on three broad areas: parents' labour market position, family structure and welfare policies. All are important factors – none has been shown to be pre-eminent (Bradbury and Jantii 1999). There are still many unresolved questions about the relative importance of different factors and how they interact with each other (Bradbury and Jantii 1999). The next section examines the links among parents' socio-economic circumstances, child poverty, and other child outcomes; the impact of welfare policies is examined in section 6.4.

6.3 Child outcomes among different groups

Understanding why children grow up in poverty and experience a range of negative outcomes associated with poverty requires an analysis of the characteristics and circumstances of their parents, as these have been identified as the main correlates of child poverty and other key child outcomes. How parents' labour market position

(ie employment, unemployment and underemployment) might affect children is examined, as well as the impact of family structure, ethnicity and teenage parenthood.

6.3.1. Parental employment

The impact of parental employment on children, and particularly the role of maternal employment in protecting children from poverty and economic deprivation, has been central to the debate on negative child outcomes in general, and child poverty in particular. Additional to this has been the effects of non-parental care on children's development when (both) parents are in paid employment and (young) children are left in the care of others.

Many studies have highlighted the importance of maternal income in lifting families out of poverty, both among sole parents (mainly mothers), but also among two-parent families, as in many cases an income adequate to support a family with children requires two earners (Bradbury and Jantii 1999, Bradbury et al. 2001a). Nordic countries have the highest levels of maternal employment and the lowest levels of child poverty. However, research in the USA among low-income families (Morris et al. 2001) has found that an increase in maternal employment not reflected in a rise in family income might not necessarily lead to positive outcomes for children. In particular, the impact on cognitive and language skills can be largely dependent on the quality of childcare a family is able "to purchase". In countries like the USA, where the price of childcare is largely influenced by market forces, low-income families might not be able to afford good quality childcare (Morris et al. 2001).

Concerns about the possible negative impact on children of maternal employment are still common in English-speaking countries and focus mainly on the impact on infants. This is not really a concern in Nordic countries: generously funded parental leave for (at least) 12 months after a child's birth means that most parents (mainly mothers) are able to stay at home when their children are very young.

A wide range of factors affect child outcomes in addition to parental employment, but we focus here on two key influences particularly relevant to the WFF; namely the quality of non-parental care and the age of the children. The impact of the former is discussed in section 6.5. In relation to a child's age evidence suggests that maternal employment in the first year of a child's life can be associated with poorer cognitive development and behavioural problems, especially if mothers work long hours. The evidence on the extent to which different children in this age group might be negatively affected is not conclusive, but some studies have shown that negative effects are more likely to emerge for two-parent and middle-income families. Maternal employment in the first year of a child's life has also been found to be more likely to be associated with negative outcomes if it starts when the child is very young, and if the work is full-time, is not voluntary and is in low quality jobs (Gennetian and Miller 2002, Gregg and Washbrook 2003, Joshi and Verropoulou 2000 and Waldfogel 2004). Conversely, generous parental leave policies, which provide paid and job-protected leave and allow parents to stay at home when their children are very young, have been associated with positive outcomes. These include a reduction in infant deaths, longer periods of breast-feeding, reduced maternal stress and improved cognitive development (Kamerman et al. 2003). One study that assessed the impact of paternal **and** maternal employment, found that they had similar effects, indicating the importance for both parents to be able to spend time with their young children (Shonkoff and Phillips 2000).

In relation to older children, most of the evidence indicates that if children are in good quality childcare maternal employment has no negative effects, and participation in early childhood education can make a positive contribution to a range of child outcomes (see section 6.5). Interestingly, recent results from evaluations of welfare-to-work programmes in the US indicate that maternal employment (among low-income families) may have negative effects on adolescents (Gennetian et al. 2002).

The move to the “24-7” society and the growth in atypical working hours have also raised concerns about the impact parents’ atypical hours can have on children. This is an issue particularly likely to affect low-income parents as they work in sectors of the economy (eg the service sector) more likely to require these work patterns. These parents also tend to be in a weak labour market position and less able to negotiate family-friendly working arrangements (La Valle et al. 2002, Kamerman et al. 2003). In the USA, Presser (2000) found that night work and shift work was likely to lead to marital instability. This finding is supported by research in England (La Valle et al. 2002), which found that parents who worked long and atypical hours tended to prioritise time spent with children and the whole family, at the expense of time spent as a couple. Further evidence from the USA shows a direct association between atypical working hours and child outcomes:

- for every hour a parent works between 6 pm and 9 pm, his or her child is 16% more likely to score in the bottom quartile of maths tests
- children whose parents work at night have been found to have a 2.7-fold increase in the likelihood of being suspended from school
- children whose mothers ever worked atypical hours (ie evenings, nights or had variable working hours) had lower cognitive scores than children whose mothers worked standard hours (Han 2005, Kamerman et al. 2003).

6.3.2 Parental unemployment and underemployment

Parental unemployment and underemployment are associated with negative child outcomes, in particular child poverty and poor educational achievement. In the late 1990s in the UK, one in five children lived in “workless households” and were considered to be at high risk of poverty and social exclusion (Hills and Waldfogel 2002). USA research (Kamerman et al. 2003) has also identified a range of negative child outcomes associated with parental unemployment and under-employment: children in these families are more likely to be poor and therefore less likely to have access to health services and other family benefits. Children of parents in temporary and part-time jobs that provide low incomes also lack benefits such as health insurance, paid annual leave and sick leave. Additionally, their odd and variable hours might require complicated childcare arrangements, which may need to be changed frequently. Parental stress associated with unemployment and under-employment has also been found to have negative psychological effects on children (Kamerman et al. 2003).

Research has also shown that child neglect and abuse can be closely linked to parental unemployment and unstable employment, even when controlling for parental education and other aspects of deprivation. Research in Denmark found that unemployed mothers of three to five year olds were more likely to behave punitively than working mothers. This difference was particularly marked when comparing unemployed mothers with working mothers who felt appreciated at work and were the least likely to behave punitively towards their children. The study also found that mothers dissatisfied with their role at work or as full-time parents were likely to reduce their involvement in parenting and become less sensitive to the needs of their children (Christoffersen 2000a, 2000b). Similar results were found when looking at

the impact on older children (ie 6–18 year olds). Physical abuse and neglect were associated with long-term (more than 21 weeks) maternal unemployment as well as a range of other factors including parental lack of vocational training, father’s mental illness, decreasing access to social networks, violence and crime in the family, and mother’s alcohol and drug abuse (Christoffersen 2000b).

6.3.3 Sole parenthood

Children in sole-parent families face a higher risk of living in poverty, with the full range of negative outcomes associated with child poverty. However, the relationship between sole parenthood and child poverty is complex. Although lone parenthood is associated with child poverty and a number of other negative child outcomes, it does not necessarily follow that it is the *cause* of these outcomes.

Table 6.1 Child poverty* in different families

| Country | Children in sole-parent families | Poverty rates of children in: | | Risk of poverty in sole-parent versus other families |
|-----------|----------------------------------|-------------------------------|----------------|--|
| | | Sole parents | Other families | |
| | % | % | % | Ratio |
| Denmark | 15.2 | 13.8 | 3.6 | 3.8 |
| Finland | 11.8 | 7.1 | 3.9 | 1.8 |
| Norway | 15.0 | 13.1 | 2.2 | 6.0 |
| Sweden | 21.3 | 6.7 | 1.5 | 4.5 |
| Australia | 14.1 | 35.6 | 8.8 | 4.0 |
| UK | 20.0 | 45.6 | 13.3 | 3.4 |
| USA | 16.6 | 55.4 | 15.8 | 3.5 |

*A poverty line of 50% of the median national income is used; the figures are from 1995–1997 for all countries except Denmark, which are for 1992.

Note: the above source did not provide data for New Zealand as comparable data could not be found. Data from the Ministry of Social Development (2002) shows that in 2001, 27% of children lived in lone-parent families; using the 60% of median income poverty measure, this source shows that 66% of children in sole-parent families live below the poverty line, compared with 20% of children in two-parent families. Using these figures, the risk of poverty ratio for children of sole parents compared with children from two-parent families in New Zealand is 3:1.

Source: UNICEF 2000

Table 6.1 shows that rates of sole parenthood vary between different countries, although the differences are not very large and show no clear split between Nordic and English-speaking countries. However, child poverty rates among sole parents vary considerably. For example, in Finland and Sweden 7% of children in sole-parent families live below the poverty line, compared with around half of their counterparts in the UK and USA, and over a third in Australia. These results reflect the considerably lower levels of child poverty in Nordic countries; they do not show that living in a sole-parent family does not increase the chances of living in poverty. This is because with the exception of Finland, the risk of poverty among children in sole-parent families in Nordic countries is as high, or higher, than in English-speaking countries.

Table 6.2 Estimated impact on child poverty* if the proportion of children of sole parents was reduced to 10%

| Country | Actual child poverty rate | Child poverty rate with 1 in 10 children in sole-parent families | Difference |
|-----------|---------------------------|--|------------|
| | % | % | |
| Denmark | 5.1 | 4.5 | -0.6 |
| Finland | 4.3 | 4.2 | -0.1 |
| Norway | 3.9 | 3.3 | -0.6 |
| Sweden | 2.6 | 2.0 | -0.6 |
| Australia | 12.6 | 11.4 | -1.2 |
| UK | 19.8 | 16.4 | -3.4 |
| US | 22.4 | 19.5 | -2.9 |

*A poverty line of 50% of the median national income is used; the figures are from 1995–1997 for all countries except Denmark, which are for 1992.
Source: UNICEF 2000

The estimates in table 6.2 show that reducing the proportion of sole-parent families would not lead to a significant reduction in child poverty, as sole parenthood explains only a very small component of child poverty. Predictably, this would have a very small impact in Nordic countries, where child poverty levels among sole-parent families are low. The impact would be greater in the UK and USA, but even here reductions would be modest (around 3%). These figures suggest that reducing the level of lone parenthood would have a very limited impact on child poverty. Instead, a more substantial effect would be to reduce child poverty rates for sole-parent families (particularly where both the level of sole parenthood and sole-parent poverty rates are high). For example, it is estimated that reducing the sole-parent poverty rate to the same level as for two-parent families would result in an overall reduction of child poverty of around 30% in Australia, the UK and the USA (Bradbury and Jantti 1999, UNICEF 2000).

As well as child poverty, sole parenthood is associated with a range of other negative outcomes:

A good deal of evidence suggests that family structure and stability are associated with direct indicators of child and later adult wellbeing, such as social and emotional adjustment, educational outcomes, family formation and labour force participation. (Kamerman et al. 2003:18)

However, an important question to be considered is whether these negative effects are due to lone parenthood or poverty; the evidence is not conclusive. In the USA longitudinal research has shown that negative outcomes remain for children among divorced mothers and those who never married, even when controlling for income (Sanson 2002). For example, when mothers remarry and income goes up, lower achievement and higher behavioural problems remain. In fact stepchildren living in reconstituted families have similar levels of negative outcomes as children in sole-parent families. Australian research also confirms these results:

While remarriage may provide a route out of poverty, living in stepfamilies provides other challenges, with stepfamilies consistently being found to be associated with a range of poorer outcomes for both children and adults. (Sanson 2002:16)

Longitudinal research in the UK has also found that children from sole-parent families perform less well on cognitive tests and have lower educational attainment than other children, but once income is controlled for, the association between sole parenthood

and these negative outcomes is no longer significant (Joshi 1999). However, other research in the UK has found a direct association between children in sole-parent families and rates of non-marital births and/or multiple partnerships in adulthood (Kiernan 1997).

6.3.4 Ethnicity

Child poverty and other negative outcomes have been found to be more prevalent among certain ethnic groups, particularly in English-speaking countries. For example, in New Zealand a range of health problems (low birth rate, hearing failure at school entry) are higher among Māori and Pacifica children than other children; obesity, disability, child abuse and neglect are also higher than average among Māori children, as are smoking levels among young Māori women. Māori and Pacifica children are also considerably more likely than children of European descent to be living in a sole-parent family and in households with low living standards (MSD 2002).

For many years there has been a concern in the USA about more negative outcomes for ethnic minority children (black and Hispanic children in particular). These include poverty, poor academic achievement, lack of health insurance, living in a sole-parent family and teenage pregnancy (Kamerma et al. 2003).

However, up to now there has been little robust data available to explore the complex relationship between ethnicity and child outcomes. A number of longitudinal studies have been launched in recent years in several countries (eg Australia, New Zealand and the UK), which collect information on families' ethnic composition. This research should soon start filling the gap in our understanding of how and why ethnicity can affect children's wellbeing.

6.3.5 Teenage parenting

Although teenage pregnancies have been declining in recent years they continue to be a problem, particularly in some English-speaking countries (the UK and USA), as teenage pregnancy is strongly associated with negative outcomes for children and for mothers. Babies born to teen mothers are at higher risk of low birth weight and infant mortality. They are also more likely to live in poverty, be part of a sole-parent family, suffer neglect and abuse, become involved in crime and antisocial behaviour, and become teen parents themselves (UNICEF 2001).

Despite a recent decline, the USA has the highest rates of teenage pregnancy in the industrialised world, and these are twice as high among black and Hispanic young people as for white teenagers. Teenage births have also been highlighted as an issue for concern in New Zealand, as they are higher than average among Māori and Pacifica young women (MSD 2002). The UK has the highest teenage pregnancy levels in Europe and here, as elsewhere, teenage pregnancy is strongly associated with a range of negative outcomes for children. However, some negative outcomes (eg low cognitive test scores) can be explained mainly by the low parental education level of these mothers, which seems to explain a great share of the associations between low income, teen parenthood and low attainment for children (Kamerma et al. 2003).

In recent years, policy concern with this group has led to the commissioning of research in English-speaking countries, as evidence is still relatively scarce. Given the strong associations consistently found between teenage parenthood and children's and mothers' wellbeing, this area certainly merits further attention and research.

6.4 Promoting parental employment

In this section we focus on welfare-to-work initiatives that aim to promote parental employment among low-income families (and sole parents in particular). Such initiatives can have a considerable impact on children and are particularly relevant to the WFF programme and its evaluation.

Some of the more robust and useful data about the effects of welfare-to-work programmes on children's wellbeing come from the USA. Many of the evaluations of these programmes are based on random assignment design, with people being randomly allocated to a welfare-to-work programme or to a control group. This design ensures that any differences between the intervention and control groups are due to the programme rather than other differences (such as the families' initial characteristics or the general social and economic conditions they experienced). This section reviews recent research based on meta-analysis of a number of large scale evaluations. These meta-analyses examined the effects on children of different programmes in USA and Canada, where the key aim was to increase parental employment.

6.4.1 Key features of the programmes and evaluations reviewed

The two meta-analysis studies explore separately the impact of a range of welfare-to-work programmes on children (Morris et al. 2001) and adolescents (Gennetian et al. 2002). Information about the programmes and evaluations reviewed by these studies are included in tables 6.3 and 6.4 respectively. The programmes had a number of different features (or combination of features) classified as follows.

Mandatory employment services: In order to receive welfare benefits, parents in programmes that included this element were required to take part in activities such as education, training or immediate job search. Those who failed to comply had their benefits reduced. As indicated in tables 6.3 and 6.4, in some programmes mandatory employment services could be combined with earning supplements and time limits (see below), while some programmes only included this mandatory element. Programmes including mandatory employment services were generally successful in increasing employment. However, if they were not combined with earnings supplements, they did not usually raise family income or resources.

Earnings supplements: Some programmes provided families with cash supplements or an increase in the proportion of benefits parents could keep if they went out to work. Childcare subsidies were also provided by some programmes. Programmes including earning supplements were found to increase both parental employment and family income.

Time limits: Some programmes restricted families' eligibility to welfare benefits to a certain number of months in a specified period. Once a family reached the time limit, federally funded cash benefits were stopped. However, the family normally remained eligible for food stamps, Medicaid, low-income childcare assistance and (where available) state-supported cash assistance. The programmes with time limits, combined with mandatory employment services and a small earnings supplement, resulted in an increase in parental employment but only modest increases in family income (Morris et al. 2001).

6.4.2 Effects of welfare-to-work programmes on young children

One of the main aims of the study conducted by Morris and colleagues was to take previous research a step further and consider the effects of different aspects of a welfare-to-work programme.

The critical question for policy is not “What are the effects of welfare reform on children?” Instead, it is “What program features are most likely to promote children’s wellbeing?” or, conversely, “What program features harm children or leave them unaffected?” (Morris et al. 2001:ES-1)

The study focused on children aged between three and nine when their parents joined the programme and between five and 12 when the follow-up studies took place. The report includes a full explanation of the child outcome measures used; most comprised standard and widely used assessment scales. A brief overview of these measures is provided below.

Children’s cognitive outcomes: These included parents’ and teachers’ assessments of children’s school performance and children’s test scores (not all evaluations included information from all these sources and some relied only on parents’ reports). The measures used varied somewhat between different programmes, and parents’ reports tended to be based on a single question about children’s school performance on a five-point scale (from one: “not well at all” to five: “very well”). In some cases parents were asked to rate their children’s performance (again using a five-point scale) on three academic subjects. Teachers’ reports were measured using a 10-item academic sub-scale from the social skills rating system, which requires teachers to rate a child’s skills relative to those of their peers in key subjects on a five-point scale – from one: “bottom 10%” to five: “top 10%”.

Children’s social behaviour: The emphasis was on externalising behaviour (eg children’s “acting out” and negative interactions such as fighting with adults and other children), rather than internalising behaviour (eg anxiety or depression). Externalising behaviour was considered to be more easily and accurately assessed by parents and teachers, and has also been found to be more likely to be affected by child-focused interventions. The measures used again varied and included a 12-item externalising sub-scale of the Behavioural Problems Index, which assesses negative behaviour such as cheating and bullying, and uses a three-point scale (from zero: “not true” to two: “very true”). A six-item externalising sub-scale of the Problem Behaviour Scale from the Social Skills Rating System was used in some cases to collect data from both teachers and parents about aggressive behaviour and how often children needed to be disciplined. This used a five-point scale ranging from one: “never” to five: “all the time”. Positive social behaviour (eg the extent to which children were helpful and co-operative) was also measured. In some cases the 25-item Positive Behaviour Scale was used – this included three sub-scales: compliance; social competence; and autonomy. Each item was scored by parents on an 11-point scale ranging from one: “not at all like my child” to ten: “completely like my child”. The Positive Social Behaviour was also used to assess (again using parental reports) children’s pro-social interaction with peers on a scale ranging from one: “never” to three: “often”.

Children’s health: This was based on parental reports, and in most evaluations was based on ratings given to a single question, which asked parents to assess their child’s overall health on a five-point scale (from one: “poor” to five: “very good”). This is a very common health measure; in Britain, for example, it is used in the main survey series that collect health data (ie, the English, Welsh and Scottish health

surveys). It correlates well with more detailed information on children's health (also provided by parents). However, because most children's health is good, the "positive" categories (ie "very good", "good" and "fair") might not provide sufficient discrimination. Extending the scale could partly deal with this problem.

As has been shown, the studies used for the meta-analyses relied, to a considerable extent, on information provided by parents. While this can be very useful, one should also consider the possibility that parents' perceptions of their children's academic performance, behaviour and health could be affected by participation in the programme. For example, high levels of work stress could result in perceiving a child's behaviour more negatively, compared with the control group; similarly working parents might be more likely than non-working parents to be aware of their children's health, because they might have to miss work. This suggests that data from a variety of sources (eg teachers and perhaps children themselves, as well as parents) would provide a more robust basis for an evaluation. Furthermore, as the authors of the study advise, teachers' reports should be weighed more heavily than parents' reports (Morris et al. 2001).

The main findings from the Morris et al. (2001) study show that:

- Programmes that included earnings supplements (which increased both parental employment and income) led to higher school achievement, and some of these programmes also reduced behavioural problems, increased positive social behaviour and/or improved children's overall health. These positive effects were most pronounced for the children of long-term welfare recipients.
- Adding mandatory employment did not affect children's outcomes beyond the positive effects already associated with earnings supplements.
- The programmes with mandatory employment (which increased parental employment but not income) had very few effects on children, and the effects that emerged were mixed. None of these programmes were found to have any effects (positive or negative) on school achievement. The effects on behaviour were not consistent across the different programmes; for example, both Atlanta programmes were associated with a reduction in children's negative behaviour, while in Grand Rapids the programmes seemed to have had the opposite effect. In the two Riverside programmes a negative impact on health was found, but in all the other sites the effect on children's health was neutral. The authors conclude that these mixed results are likely to be due to the characteristics of the different sites.
- Not much information is available on the effects of time limits (which increased parental employment and resulted in a modest impact on income). Only one study reviewed included this element (which was combined with mandatory employment and a small earning supplement), and results are mixed as time limits were associated with an improvement in children's health but a decrease in positive social behaviour.

The results above indicate that an increase in parental employment leads to considerable positive effects on children only if it is combined with an increase in family income. Moreover, as Morris et al. have pointed out:

Although the effects of earnings supplements on children are encouraging, the improvements are modest when considered in the context of these children's high levels of disadvantage. Even the programs with the most benefits to children left many families in poverty and many children at risk of school failure

and behaviour problems. These programmes do not eliminate the need for child-focused interventions and reforms that promote school achievement and reduce behaviour problems. (2001:ES-5)

Table 6.3 Studies and programmes included in the assessment of outcomes for pre-school and early school aged children

| Study | Programme/s tested and whether any child-focused elements | Key policy features ¹ | | | Site/s | Study start date and timing of follow-up | Sample size and age group |
|---|---|----------------------------------|-----|-----|-------------------------------------|--|---|
| | | MES | ES | TL | | | |
| New Hope Project | New Hope Demonstration Childcare and health insurance subsidies | No | Yes | No | Milwaukee | 1994 24 months after parents joined programme | 832 Aged 3–12 at follow-up |
| National Evaluation of Welfare-to-work Strategies (NEWWS) | Human Capital Development and Labour Force Attachment | Yes | No | No | Atlanta, Grand Rapids and Riverside | 1991 24 months after parents joined programme | Atlanta: 1,928 Grand Rapids: 862 Riverside: 1,272 |
| | Employment focused with mixed initial activities | Yes | No | No | Portland | | Aged 5–7 at follow-up |
| Minnesota Family Investment Program (MFIP) Evaluation | Full MFIP | Yes | Yes | No | 7 counties in Minnesota | 1994 36 months after parents joined programme | Full MFIP: 587 |
| | MFIP Incentives Only Childcare subsidies made available directly to providers | No | Yes | No | | | Only: 573 Aged 5–12 at follow-up |
| Self-Sufficiency Project (SSP) Evaluation | Self-Sufficiency Project | No | Yes | No | 2 Canadian provinces | 1992 36 months after parents joined programme | 2,158 Aged 6–11 at follow-up |
| Family Transition Programme (FTP) Evaluation | Family Transition Programme Parents required to ensure children immunised and attending school regularly | Yes | Yes | Yes | Escambia County | 1994 48 months after parents joined programme | 1,108 Aged 5–12 at follow-up |

¹ MES = Mandatory Employment Services; ES = Earnings Supplement; TL = Time Limits.
Source: Morris et al. 2001

Table 6.4 Studies and programmes included in the assessment of outcomes for adolescents

| Study | Programme/s tested | Key policy features ¹ | | | Site/s | Study start date and length of follow-up | Minimum sample size and age group |
|---|--|----------------------------------|-----|-----|-------------------------------------|---|--------------------------------------|
| | | MES | ES | TL | | | |
| New Hope Project | New Hope Demonstration | No | Yes | No | Milwaukee | 1994 24 months after parents joined programmes | 274 Aged 12–18 at follow-up |
| Self-Sufficiency Project (SSP) Evaluation | Self-Sufficiency Project | No | Yes | No | 2 Canadian provinces | 1992 36 months after parents joined programmes | 868 Aged 13–18 at follow-up |
| Welfare Restructuring Project (WRP) Evaluation | WRP Incentives Only | No | Yes | No | 6 welfare districts in Vermont | 1994 42 months after parents joined programmes | 496 Aged 13.5–18 at follow-up |
| | Full WRP | Yes ² | Yes | No | | | |
| National Evaluation of Welfare-to-work Strategies (NEWWS) | Human Capital Development (HCD) and Labour Force Attachment LFA) | Yes | No | No | Atlanta, Grand Rapids and Riverside | 1991 60 months after parents joined programmes | 2,397 Aged 15–18 at follow-up |
| | Employment focused with mixed initial activities | Yes | No | No | Portland | | |
| Los Angeles Jobs-First Greater Avenues for Independence (GAIN) Evaluation | Los Angeles Jobs-First GAIN | Yes | No | No | Los Angeles County | 1996 24 months after parents joined programmes | 461 Aged 12–18 at follow-up |
| Minnesota Family Investment Program (MFIP) Evaluation | Full MFIP for long-term recipients | Yes | Yes | No | 7 counties in Minnesota | 1994 36 months after parents joined programmes | 796 Aged 13–18 at follow-up |
| | Full MFIP for recent applicants | Yes | Yes | No | | | |
| | MFIP Incentives Only for long-term recipients | No | Yes | No | | | |
| Family Transition Programme (FTP) Evaluation | Family Transition Programme | Yes | Yes | Yes | Escambia County | 1994 48 months after parents joined programmes | 415 Aged 14–18 at follow-up |
| Jobs First Evaluation | Jobs First | Yes | Yes | Yes | New Haven and Manchester | 1996 36 months after parents joined programmes | 862 Aged 13–18 at follow-up |

¹ MES= Mandatory Employment Services; ES= Earnings Supplement; TL= Time Limits

² This feature of Full WRP is more accurately described as a time-triggered work requirement.

Source: Gennetian et al. 2002

6.4.3. Effects of welfare-to-work programmes on adolescents

The main aim of the study by Gennetian et al. (2002) was to fill a gap in our understanding of how welfare-to-work programmes might affect adolescents. Generally, research that has explored child outcomes has focused on young children and not considered if and how children's age and life cycle stage might mediate the effects of these programmes. The data available on adolescents was more limited than the information collected for younger children, as the follow-ups tended to focus on the latter. Detailed information about the measures used to assess young people's outcomes is included in the report; an overview of these measures is included below.

School outcomes: These were measured by asking mothers about grade repetition and whether young people dropped out of school. Some evaluations also asked a question about overall school performance, which was rated using a five-point scale (from five: "very well" to one: "not at all well"). Only the SSP study included teachers' reports, as well as the information provided by parents.

School-related behaviour: This covered whether young people received any special educational services, had been suspended or expelled from school, and whether the parent had been contacted by the school about their child's behavioural problems.

Other outcomes: The only non-school related measure available from all programmes was teenage parenthood, while some (but not all) evaluations collected data on crime and antisocial behaviour, alcohol and drug use.

Given the age group explored, there may be concerns about the accuracy of the information provided by parents about school performance, as some young people might not share much information about school activities with their parents. However, the authors of the study argue that maternal misreporting is unlikely to compromise the validity of the results for a number of reasons. First, even if there was some misreporting, there is no reason to believe this should be different between intervention and control groups. Second, mothers were mainly asked about very significant events (eg suspension, grade repetition and special needs), of which parents are very likely to be aware. Third, where data from teachers was also available (ie in the SSP evaluation), the teachers' assessments were found to moderately correlate with mothers' assessments. Despite these arguments, it would also seem that, as discussed earlier, an assessment of young people's outcomes based on information from a number of sources would be more robust. It would seem particularly important to collect information from the young people themselves, especially on topics such as smoking, drinking and drug use, involvement in antisocial behaviour and crime, friendships, relationship with parents and other significant adults, and views and experiences of school, including bullying.

Qualitative data was also used to complement the findings from the meta-analysis and to explore the processes that might result in different outcomes for children. The qualitative study was not part of the evaluations listed in table 6.4; it was a separate ethnographic study with mothers to explore how adolescents might be affected by their mother's transition from welfare into work.

The main findings from the Gennetian et al. (2002) study show that:

Some school outcomes (school performance, grade repetition and use of special educational services) were negatively affected by the programmes examined. While the impacts were small, given that these young people were already highly disadvantaged and at risk, even a small effect could considerably influence their

lives. (Not all school outcomes were negatively affected – school drop out and suspensions did not increase.)

Negative effects were also found in relation to minor delinquency, involvement with the police and substance abuse, but these outcomes were not measured across most programmes. The only non-school outcome available from all evaluations (teenage parenthood) did not appear to be affected.

The findings do not indicate that some features of the programme were less likely to result in negative outcomes for young people. In contrast to results for younger children, all three programmes approaches, even those that increased family income, resulted in some negative effects on young people

For most of the outcomes examined, negative effects were more likely to be experienced by adolescents with younger siblings; even when the overall results did not indicate negative outcomes. For example, young people with younger siblings were more likely to drop out of school and be suspended than their counterparts in the control groups.

Data from some of the evaluations that examined after-school activities found that young people with younger siblings (unlike those without younger siblings) did not receive more structured supervision or participate in more after-school activities than their counterparts in the control groups. They were also more likely than the control groups to look after their younger siblings and to be working for more than 20 hours a week (the last result is based on one programme only).

The qualitative data shows that the jobs typically held by (sole) parents in the programmes were rather inflexible and made it very difficult for these parents to give their children the time and attention they needed.

The authors conclude that:

Policy makers should place priority on understanding how adolescents are affected by maternal employment and on testing new approaches in programs for low income youth and their families. (Gennetian et al. 2002:48)

6.5 Early childhood education, out-of-school care and child outcomes

Most research on the impact of early childhood education and out-of-school care on child outcomes comes from the USA. Two landmark studies involving children at risk were started in the US in the 1960s and 1970s (the Perry Pre-school Project and the Abecedarian Project). Both were based upon randomised trials and showed the lasting positive effects of good quality early childhood education (Burchinal et al. 1989, Schweinhart 2005). These early studies have since been followed by a wave of research among both advantaged and disadvantaged children, mostly focused on the impact of early childhood education while a much smaller number of studies have explored the effects of out-of-school care.

The main studies exploring the effects of early childhood education and out-of-school care are summarised in tables 6.5 and 6.6 respectively and are discussed in the rest of the section.

Table 6.5 Main studies on the effects of early childhood education

| Name of study | Country | Date | Sample size | Brief description |
|--|----------------|-------------|--------------------|--|
| Perry Pre-school (High/Scope) Project | USA | 1962–1990s | 123 | Targeted children from disadvantaged families to see whether high quality active learning pre-school projects could provide both short- and long-term benefits to children living in poverty. Children were randomly assigned to an experimental pre-school group or a control group with no pre-school experience and were tested on entry to school and in subsequent years. The programme has been subjected to careful evaluation for almost 30 years (Schweinhart 2005). |
| Carolina Abecedarian Study | USA | 1978–1999 | 111 | Targeted children from disadvantaged, mainly African-American families, of whom 57 were enrolled for five years in an early education programme, with good adult:child ratios, ongoing professional development and salaries for staff based on the public school pay scale. The other 54 children were the control group who received no pre-school service (Burchinal et al. 1989). |
| Stockholm Study | Sweden | 1980–1992 | 128 | Children were three years old when study began to look at effects of different childcare histories on children's development. At ages 8 and 13, teachers assessed children on cognitive and social competencies (Andersson 1992). |
| Göteborg Childcare Study | Sweden | 1989–1997 | 145 | Children were followed from 16 months, before they entered day care, until the age of eight. The study was designed to take into account pre-enrolment differences between families. It was set up to assess the effects of childcare on children's development and data on the quality of the day-care setting was collected (Hwang and Broberg 1992). |
| The National Institute for Child Health and Human Development (NICHD) Study of Early Childcare | USA | 1989– | 1300 | Examines how variations in early childhood experiences among infants and toddlers from different family backgrounds influenced their development. Longitudinal prospective study: infants followed from birth to seven years in 10 research sites across the USA. It considers the effect of childcare, as well as inter-dependent variables of childcare environments, home environments and child characteristics (NICHD Early Childcare Research Network 1996). |
| Competent Children's Project | New Zealand | 1992–1999 | 307 | A retrospective longitudinal study designed to consider the effects of early childhood provision on children's competencies, including literacy, mathematics and problem solving to age 12. Academic and social data were first collected when the children involved were five years old (Wylie and Thompson 2003). |
| Cost, Quality and Child Outcomes Study | USA | 1993–2000 | 826 | Based on 398 centres (evenly distributed between profit and non-profit) in four states varying in licensing requirements. Data on quality collected on two classrooms randomly chosen from each centre. Children were followed for four years starting near the end of their next-to-last pre-school year (Peisner-Feinberg et al. 2000). |
| Effective Provision of Pre-School Education (EPPE) Project | England | 1997–2003 | 3000 | A prospective longitudinal cohort study of children drawn from randomly selected pre-school settings in England. The study analyses the impact on developmental progress (of children from different social and cultural backgrounds who have differing pre-school experiences) of duration and quality of early childhood education and care, family background, ethnicity and social and economic background. It uses a value-added, school-effectiveness design to establish the effects on the developmental progress of children (Sylva et al. 2004). |

Source: McQuail et al. 2003:19

Table 6.6 Main studies on the effects of out-of-school care

| Name of study | Country | Date | Sample size | Brief description |
|--|---------|-------|-------------|---|
| The Child Development Project | USA | 1990s | 585 | The sample for this study included birth cohorts (1987 and 1988) from three cities. The study had two strands. The first focused on exploring patterns of out-of-school care, in terms of complexity (ie number and type of care providers) and number of hours of care and children's subsequent social, behavioural and academic adjustments at grade 6. The second strand looked at the impact of out-of-school care on children's externalising (eg aggression and delinquency) and internalising (eg depression and anxiety) behavioural problems at grades 6 and 7. |
| Children of the National Longitudinal Survey of Youth (NLSY): choices in after-school care and child development | USA | 1986 | 390 | This study took a sub-sample of parents of children from the NLSY to assess the impact of different types of out-of-school care, including maternal care, self-care and other types of formal and informal care. While the sample was taken from a longitudinal survey, the assessments for this study were only taken on one occasion and effects over time were not measured. The study assessed the home environment, a range of behavioural problems and cognitive development. |
| After-school activities and the development of low income urban children | USA | 1990s | 150 | This study focused on low-income urban families. The sample of children was followed over two and half years and assessed at grades 3, 4 and 5. The study explored children's reports of their own out-of-school activities, children's school performance and adjustment. |

Source: Munton et al. 2001:119–122

6.5.1 Impact of early childhood education and out-of-school care

The Perry Pre-School project was perhaps the first study to produce robust data on the effects of early childhood education. The project, which involved a two-year, high quality pre-school programme for three to four year olds, was targeted at a very disadvantaged group of children. Its aim was to assess the short- and long-term effects of early intervention. Data on a range of outcomes was collected at regular intervals from children who participated, with the most recent data collected when the participants were aged 40. The study has shown that:

- the “Perry children” significantly outperformed the control group on various intellectual, language and school achievement tests at every stage they were assessed; they also outperformed the non-programme children in terms of the highest level of schooling completed
- these positive educational outcomes were reflected in the economic performance of the “Perry children” as they became adults; at every stage of the study they were more likely to be found in paid employment and to be earning more than the control group
- the programme seems to have also played a role in reducing involvement with crime; the Perry children were less likely to have been arrested and to have been in jail than the control group
- according to one of the authors of the study, a cost-benefit analysis indicates not only that the return to the public of the initial investment in the programme is substantial, but larger than previously estimated, particularly as the latest results have shown that the long-term effects are life-time effects (Schweinhart 2005).

While the above study is probably the only one that has provided evidence on the lifetime effects of early childhood education on children at risk, the long-term benefits of early childhood education for all children, not only those at risk, have been reported in other studies conducted in a range of national contexts. For example:

- evidence from a New Zealand longitudinal study, which assessed children from a range of socio-economic backgrounds who had been in early childhood education for three years or more, has shown that at age 10 these children had higher average scores on key competencies, including literacy, maths, problem solving, communication, social skills and motor skills (Wylie and Thompson 2003)
- longitudinal research in Sweden, which followed up children until the age of 8–13, has shown that children starting early childhood education between 6–12 months scored significantly higher on aptitude tests and cognitive outcomes, and got more positive ratings from their teachers on socio-emotional attributes than children who entered early childhood education later, or who were cared for at home (Andersson 1992, Broberg et al. 1997)
- in England, a cohort study (the Effective Provision of Pre-School Education or EPPE) of children selected from a range of pre-school settings, found that early childhood education enhances all-round development of children and school readiness, with these positive effects still being evident in the early years of primary school (Sylva et al. 2004).

While there is some evidence that school-age children might benefit from formal after-school activities that provide a stimulating academic environment, far less research has been conducted in this area and the results are less conclusive. A review of the evidence from a number of longitudinal studies suggests that, for disadvantaged children, the availability of supervised after-school activities can reduce the risk of poor adjustment and incidence of problem behaviours, although the review did not find any evidence of direct links between out-of-school care and academic performance (Munton et al. 2001).

The evidence on the effects of early childhood education also shows that the benefits can be greatest for children from disadvantaged groups.

- In England, the EPPE study found that disadvantaged children,⁵⁵ and boys in particular, could benefit significantly from good-quality early childhood education. They were more likely to benefit if they attended a setting with a mixed social composition, rather than one comprising mainly disadvantaged children (Sylva et al. 2004).
- Research in the USA has also shown that for some outcomes (maths skills and problem behaviours) children whose mothers had lower educational levels (who are usually considered to be at risk of underachieving at school) benefited more than others from high quality early childhood education, with the positive outcomes sustained through second grade (Peisner-Feinberg et al. 2000).

Waldfoegel argued that the evidence showed that Nordic countries have been most successful in breaking the link between parental disadvantage and children's negative outcomes. Good quality early childhood education has played a key role in breaking this link. She concludes that:

...the hypothesis that universal enrolment into high-quality child care leads to more equal outcomes than enrolment into care where the quality is correlated with parents' ability to pay makes good sense. (Waldfoegel 2004:4)

6.5.2 Impact of quality and quantity of early childhood education

Research on the effects of early childhood education has consistently highlighted the importance of its quality. Positive child outcomes are particularly associated with

⁵⁵ The factors considered in defining children as disadvantaged included: English not their first language; three or more siblings; premature baby/low birth weight, mothers with no qualifications; young mother; parental unemployment; sole parenthood; father in semi-skilled/unskilled occupation.

good quality provision, so that children in high quality services are likely to do better than children in poor quality provision (Kamerman et al. 2003, Peisner-Feinberg et al. 2000, Sylva et al. 2004, Wylie and Thompson 2003). A recent review of the effects of the quality of provision concluded that:

The positive relationship between childcare quality and virtually every facet of children's development that has been studied is one of the most consistent findings in developmental science... The conclusions derive from experimental research of high quality interventions for children at risk as well as from the weaker correlation designs that assess a broader range of quality and a broader range distribution of children. (Shonkoff and Phillips 2000:313)

The evidence also suggests that even among registered settings that need to comply with national regulatory frameworks the quality of provision can vary considerably. For example, in New Zealand findings from the Competent Children project have shown that high quality early childhood education “was unevenly distributed, a distribution which tended to favour children from well-resourced homes” (Wylie and Thompson 2003:76).

The EPPE study in England also found considerable variety in terms of quality of provision, as well as finding that overall higher quality was positively associated with children's cognitive progress in some key areas (eg pre-reading, early numbers concept and non-verbal reasoning). The research also found a clear association between different aspects of quality and child outcomes, for example:

- settings with high scores on the “social interaction”, “adults working together” and “language reasoning” sub-scales of the Early Childhood Environmental Rating Scale⁵⁶ were particularly likely to be associated with positive cognitive outcomes
- high scores on positive adult–child interaction were related to better pre-reading progress; conversely poor scores on this dimension of quality (eg detachment, punitive behaviour) were associated with poorer progress in pre-reading and early number concepts (Sylva et al. 2004).

Research also shows that the age at which children start attending early childhood education can affect outcomes.

- Research in Sweden has shown that children who started early childhood education before the age of one did better in all school subjects, had more developed social skills and adjusted more rapidly at school than children who started early childhood education later (Andersson 1992).
- Evidence from New Zealand shows that the longer children are in early childhood education, the better their motor and early maths skills (Wylie and Thompson 2003).
- Evidence from the EPPE study in England shows that an early start (before the age of three) is associated with better intellectual development. However, full-time participation did not appear to lead to greater benefits than part-time attendance (Sylva et al. 2004).

6.5.3 Assessing quality

As argued by Mooney et al. (2003), measures used to assess the quality of provision can be classified into a number of broad categories, including structural features, processes and outcomes. Structural features relate to measures such as staff

⁵⁶ The Early Childhood Environmental Rating Scale is one of the most commonly used observational measures for describing the characteristics of childcare settings. It includes 43 items divided into seven sub-scales: space and furnishing, personal care routines, language and reasoning, activities, social interactions, organisation and routines, and adults working together (Sylva et al. 2004). More information about this is provided in the next section.

qualifications and training, staff working conditions and pay, group size and staff:child ratios. Process measures attempt to explore what happens in the settings, the range and nature of activities children engage in, and the interactions between children and between children and adults. Various measures of child outcomes were explored in the previous section; assessments of parents' satisfaction with the service can also be included.

While it is possible to identify these broad dimensions of quality, which are likely to feature in most quality assessments, the approaches used to assess the quality of provision can vary considerably, largely reflecting how quality is conceptualised and defined in different national contexts. For example, in Nordic countries, children, parents and staff develop both the quality objectives for the service and the ways progress towards these objectives should be assessed (Mooney et al. 2003). In English-speaking countries, standardised observation scales are a common means of assessing the quality of provision, of which perhaps the best known and more widely used observation scales are the Environmental Rating Scales. The latter include a series of four scales that share the same format and scoring system but vary considerably in requirements, with each scale assessing a different age group and/or type of setting. We now provide a brief explanation of the Infant/Toddler Environmental Rating Scale-Revised Edition (ITERS-R), which is used to assess provision for children from birth to 30 months. Further details about this series of scales and instructions for their administration can be found on the website of the FPG Child Development Institute, the University of Carolina at Chapel Hill (www.fpg.unc.edu).

Through the scoring of a setting on a number of quality dimensions, the ITERS-R aims to assess provision in relation to the protection of children's health and safety, appropriate stimulation through language and activities, and warm and supportive interaction. The ITERS-R includes 39 items that are organised into seven sub-scales: space and furnishings, personal care routines, listening and talking, activities, interaction, programme structure, and parents and staff (see table 6.7).

An observation of a setting for at least two hours is needed to complete the ITERS-R, but a longer observation is strongly recommended – in practice this typically requires around half a day. There are certain parts of the day that need to be observed to complete specific items (eg arrivals and departures, outdoor play, snack and lunchtime, nap time) and this may have a bearing on the number of hours assessors need to spend in each setting.

In terms of the skills required to administer the ITERS-R, some familiarity with and knowledge of early years' provision is an advantage but not essential; with the appropriate training researchers from a variety of backgrounds can carry out observations. A fairly comprehensive training programme would require 3–4 days and include practice visits and extensive feedback.

Table 6.7 ITERS-R sub-scales and items

| | |
|---|--|
| <p>Space and furnishings</p> <ol style="list-style-type: none"> 1. indoor space 2. furniture for routine care and play 3. provision for relaxation and comfort 4. room arrangement for play 5. display for children <p>Personal care routines</p> <ol style="list-style-type: none"> 6. greeting/departing 7. meals/snacks 8. nap 9. diapering/toileting 10. health practices 11. safety practices <p>Listening and talking</p> <ol style="list-style-type: none"> 12. helping children understand language 13. helping children use language 14. using books <p>Activities</p> <ol style="list-style-type: none"> 15. fine motor 16. active physical play 17. art 18. music and movement 19. blocks | <ol style="list-style-type: none"> 20. dramatic play 21. sand and water play 22. nature/science 23. use of TV, video, and/or computer 24. promoting diversity <p>Interaction</p> <ol style="list-style-type: none"> 25. supervision of play and learning 26. peer interaction 27. staff–child interaction 28. discipline <p>Programme structure</p> <ol style="list-style-type: none"> 29. schedule 30. free play 31. group play activities 32. provisions for children with disabilities <p>Parents and staff</p> <ol style="list-style-type: none"> 33. provisions for parents 34. provisions for personal needs of staff 35. provisions for professional needs of staff 36. staff interaction and cooperation 37. staff continuity 38. supervision and evaluation of staff 39. opportunities for professional growth |
|---|--|

Source: Environmental Rating Scales, FPG Child Development Institute, the University of Carolina at Chapel Hill (www.fpg.unc.edu)

6.6 Overview

This final section considers the possible implications of the review on child outcomes in terms of guiding the research to evaluate the WFF programme in New Zealand.

The findings on the correlates of child poverty and other negative child outcomes show the complex interplay of factors that need to be taken into account when exploring if and how policy intervention can make a positive contribution to children's wellbeing and life chances. In relation to parental employment, the findings presented earlier show that in assessing the impact this has on children, it is important to differentiate between various aspects of parental employment. For example, how many hours parents work and when, what type of jobs they do and how much they earn, as all these variables affect a range of child outcomes. As well as maternal employment (which has been the focus of most research so far), it would be useful to explore how paternal employment and (resident and non-resident) fathers' involvement in caring for their children might impact on child outcomes.

The results discussed earlier suggest that more research is needed to understand if and how sole parenthood might affect child outcomes, independently of poverty. They also indicate that an analysis that focuses on whether children at a particular point in time live with one or two (natural or step) parents might not be sufficient to provide the full picture. The effects of living in reconstructed families must also be considered, as previous (as well as current) experiences of living in a sole-parent family must also be taken into account.

While not much research has been conducted on the effects of ethnicity and teenage parenthood on child outcomes, evidence available indicates that these factors need

to be taken into account when considering if and how policies might affect children from these groups. An exploration of these groups could indicate, for example, that in order to be effective policy intervention might need to be better tailored to their specific needs and circumstances.

The evidence also suggests that when looking at the impact on children of welfare-to-work policies, it is important to explore variations between children from different age groups. Some would argue that variations between girls and boys should also be considered, although the evidence on this is less conclusive (Morris et al. 2001). The studies reviewed in this section have relied on parents and, in some cases, teachers to provide data on children. However, consensus is growing that it is important to explore the perspectives of children and young people when assessing how policies affect their lives. Information collected directly from children and young people could, for example, help explain differential effects on children and young people at different ages and life cycle stages.

Finally, both the quality and quantity of the non-parental care that pre-school children receive is likely to have a considerable impact on key child outcomes. All the evidence suggests that in assessing the range of factors that influence children's lives, it is important to consider:

- if children have been in non-parental care
- at what age this started
- whether they were in non-parental care full-time or part-time
- in what settings children were cared for (eg at home by informal carers, in regulated family care, in an early childhood education centre)
- the quality of the provision.

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