

Evidence-based Evaluation Working for Families

Introduction

One of the most important functions of the discipline of economics is to provide a rational basis for policy making. The role of evidence is at its heart, yet the scientific approach to social matters may also blind us to fundamental normative issues that must be faced before we can answer the question: does this policy make us better off?

This article first outlines the background to 'evidence-based' or 'evidence-informed' policy, sometimes called 'what works', and then suggests a simple framework for policy analysis that highlights the points at which research-based evidence may, could, or should have an impact. The framework may also be adapted to provide a basis for a critique of existing social policy.

Major policies like Working for Families (WFF) are implemented with large budgets for evaluation; however, in practice such evaluations may take a

narrow focus. This article uses the policy framework to critique WFF with an emphasis on the component designed to incentivise work called the in-work tax credit (IWTC). The conclusion of our analysis is that quantitative measurement of employment outcomes of the work incentive part of WFF became an end point of the policy process and appeared to provide an 'evidence-based' endorsement. The official evaluations largely ignored qualitative factors, unintended consequences, normative

assumptions and trade-offs, ex post questioning of the economic models, and meta-analysis. As a result there was little broader critical analysis that might have suggested improvements to this policy.

Evidence-based policy

The 1999 UK white paper *Modernising Government* proposed that being evidence-based was one of several core features of effective policy making, a theme developed in subsequent government publications (Bullock, Mountford and Stanley, 2001; Strategic Policy Making Team, 1999). As in the UK, evidence-based approaches to social policy became popular in New Zealand. The theme of the 2003 Social Policy Research and Evaluation conference convened by the Ministry of Social Development was the incorporation of research and evaluation into evidence-based policy and service delivery. Subsequent conferences strengthened the belief that objectivity and hence better policies would result from taking an evidence-based approach.

The concept of evidence-based policy has an intuitive common sense logic, which partly explains how it has become naturalised in a diverse range of policy settings. (Marston and Watts, 2003, 144)

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Box 1: Policy development framework

1. Clarify the problem.
2. Set clear objectives (aims) for policy; note trade-offs.
3. Make aims measurable or quantifiable.
4. Select policy criteria: e.g. cost-effectiveness, economic efficiency, equity, administrative simplicity; outline theories or models that inform policy development.
5. Assess a full range of policies that might achieve the objectives.
6. Select and design the best policy; project expected costs and outcomes.
7. Implement policy.
8. Measure outcomes against clearly stated, measurable objectives.
9. Review unintended consequences.
10. Evaluate policy against criteria; confirm that the problems and the underlying economic model have been properly conceived; and suggest improvements.

Source: revised from St John and Dale, 2010

Table 1: WFF changes, alignment with objectives and the change in annual expenditure

WFF changes	Objectives of WFF changes			Change in annual expenditure (2004–2008) ¹
	Make work pay	Ensure income adequacy	Delivery supports people into work	
Increases in family tax credit rates (1 April 2005 and 1 April 2007)		✓		+\$1,087m ²
Changes to the abatement regime of WFF tax credits from 1 April 2006	✓	✓		
Introduction of the in-work tax credit (1 April 2006)	✓	✓		+\$485m ³
Annual adjustment of the minimum family tax credit ⁴	✓	✓	✓	+\$5m
An increase in the accommodation supplement thresholds and rates	✓	✓		+\$177m
Increased child care assistance for those eligible	✓	✓		+\$93m
Removal of the child component of main benefits ⁵	✓		✓	-\$297m
Replacement of the special benefit with temporary additional support ⁶			✓	-\$3m
Total change in expenditure				+\$1,548m
Systems to support delivery of WFF changes			✓	+\$108m

Source: adapted from Centre for Social Research and Evaluation, 2010c, p.2

1. Tax years ended March.

2. Expenditure on family tax credit and parental tax credit.

3. Expenditure on in-work tax credit and child tax credit.

4. Ensures no reduction in income when moving off benefit into paid work.

5. Estimated, assuming every sole parent receiving domestic purposes benefit with one child would have received \$27 child component a week, and those with two or more children would have received \$54 child component.

6. Temporary additional support is targeted at beneficiaries with higher financial costs.

As Nutley, Davies and Walter (2003, 29) argue, it became fashionable to emphasise the role of evidence and analysis, thus making social science and policy making appear 'objective' and 'scientific'. However, statistical methods designed for an idealised world may rely on some assumptions that make the results questionable. Also, unless the samples are large, and a wide range of factors are included, statistically teasing apart aspects that usually occur together is difficult. The process may obscure other evidence essential to developing the deeper understanding that policy makers (and others) need (see Wylie, 2006, 8-9).

In this environment there are many caveats around most evidence-based evaluations of social policy. Adopting 'what works?' as a slogan can be simplistic and dangerous. Intervening in children's lives, especially, as discussed in Roberts (2005), is 'not just a research, policy and practice issue ... it is also a rights issue for children and young people' (p.34). When assessing a social policy such as WFF, where the work behaviour of parents was intended to be modified by a payment to achieve poverty objectives for children, the role of quantitative evidence may be limited.

The WFF policy has been subject to a number of official and unofficial appraisals and evaluations, as set out in the appendix below. The first official evaluation was delivered at a Victoria University tax conference in Wellington in February 2009, and published online (Ministry of Social Development and Inland Revenue, 2009). A further iteration (Dalgety et al., 2010a) and a technical report (Dalgety et al., 2010b) were further updated in the final evaluation report, *Changing Families' Financial Support and Incentives for Working: the summary report of the Working for Families package* (Centre for Social Research and Evaluation, 2010c), with several annexes looking specifically at technical issues, such as effective marginal tax rates.

Various researchers have been interested in evaluating whether WFF increases or decreases other kinds of social behaviour apart from working, such as partnering or having children (for example, see Fitzgerald, Maloney and

Table 2: Tax credits in Working for Families

Tax credit	Cost (\$m) year ended June 2011	Nature of payment (2011)
Family tax credit (FTC)	\$2,200	Child-related weekly supplement: \$88 per week for the first child, \$61 for subsequent children, higher rates for children over 13. Abated at 20% from \$36,860 joint income.
In-work tax credit (IWTC)	\$592	Child-related weekly supplement, work requirement: 20 hours sole parent, 30 hours couple; and off-benefit. \$60 per week for 1-3-child families, increasing to \$75 per week for a 4-child family, \$90 for a 5-child family, and for a 6-child family \$105 a week. Abated after the FTC.
Minimum family Ttx credit (MFTC)	minor	Minimum family income top-up (net \$22,204). Requires same hours of work as the IWTC and off-benefit. The MFTC is abated at 100% for additional income.
Parental tax credit* (PTC)	minor	Paid \$150 a week for 8 weeks for new child. Abated after the IWTC.

Source: IRD, <https://interact1.ird.govt.nz/forms/famcalc2008/>

* The PTC is paid for a small number of families with a new baby and while providing design issues of its own (St John and FAMILTON, 2011) is not further discussed here.

Pacheco, 2008). These issues, however, are not further explored here.

The policy framework

An economics framework for policy analysis can be set out in a number of ways. In the suggested sequence shown in Box 1, evidence has a role at each step, but is itself capable of manipulation. There are also normative disagreements that should be made explicit but which may instead be subsumed in the political process.

The objectives and normative values of politicians may influence each step of the policy process, and the choice of criteria and their weighting may be different from those of the policy analysts. Thus, each step has the potential for confusion and loss of clarity, with a large element of subjectivity in the selection of the kinds of evidence to be used. As always, the 'question' determines the possible 'answer'. For there to be a quantitative evaluation, the aims of policy must be measurable. The process of measuring may lose sight of the underlying social policy outcomes judged on broader considerations, including whether the problems have actually been addressed, whether the underlying economic model was properly conceived, or how policy may be improved (for a discussion of

measuring the success of social policy see St John, 1997).

How should a good result be measured? Does it 'work' if it meets the objectives of the policy? Or should it be assessed according to a set of higher order principles capable of transcending political ideologies and good intention? (Durie, 2004, 2)

Case study: Working for Families, the role of the in-work tax credit

The above framework is useful for the development of new policy, and can also be adapted to analyse existing policy. The WFF financial assistance package, implemented between October 2004 and April 2007, and summarised in Table 1, was a major policy change for the support of New Zealand's children (St John, 2006, 2011). This case study examines the role of the tax credits, described in more detail in Table 2, with a particular focus on the IWTC which was introduced on 1 April 2006, and, as can be seen from Table 1, had a dual focus on income adequacy and making work pay.

Table 2 shows that all low-income families with children are entitled to a per-week, per-child family tax credit (FTC). If they are not in receipt of a

benefit, and meet the work test, they may also be entitled to the IWTC. This is a child-related payment of \$60 for one-three children, rising by \$15 per child for the fourth and subsequent children. These two main tax credits recognise the extra costs of children and are usually paid fortnightly to the caregiver, with the amount dependent on the combined annual family income and the number and age of dependent children. The total amount is abated from a household income of \$36,860 at a rate of 20%, with the IWTC abated last.

In 2011 the IWTC and the FTC cost a total of \$2.8 billion, with 21% for the IWTC. For low working income families, the value of the IWTC is significant: for example, for a one-child family it is around 40% of total family assistance.²

The minimum family tax credit (MFTC), designed to encourage an exit from the benefit system, is a flat-rate top-up that guarantees a minimum level of income for working families.³ For example, a sole parent on the domestic purposes benefit (DPB) working 20 hours could be shifted off the benefit and have net wages topped up with the MFTC. Families with children may receive the FTC and the IWTC in addition to the MFTC. The MFTC replaces, in effect, their part-benefit and ensures that they are not worse off. However, it abates at 100% for every extra dollar earned, providing a maximum work disincentive.

What was the problem to be addressed?

By the early 2000s family income assistance had fallen markedly in real terms through neglect and a lack of inflation indexing. The key WFF policy document from the Cabinet policy committee (2004) noted that 'the declining real value of family income assistance has been a key factor contributing to inadequate family income' (p.1).

The political context for the development of WFF was that the government had vowed to eliminate child poverty (Ministry of Social Development, 2002). There was nothing to suggest in the conceptualisation of the problem that the concern was not about all children in poverty. Child poverty was described as having 'negative effects on the well-being