

## **Chapter Eight**

### **FISCAL AND WELFARE BARRIERS TO EFFECTIVE FATHERHOOD**

by  
**Keith Rankin**

#### **INTRODUCTION**

The family, whether extended or nuclear, has been central to all societies. A successful society produces sufficient children to maintain itself indefinitely. Children, as they become adults, are expected, individually or collectively, to support their parents in old age. In the broader sweep of historical change, they are expected to maintain and extend their society's collective cultural and economic legacy.

Because of the social importance of reproduction, "family values" have always been seen as critically important to a society. Men as well as women are expected to make a significant contribution to the raising of each new generation. This is especially true for societies such as ours that emphasise nuclear families. The ideal is that fathers should make that contribution through a permanent pair-bond relationship with the mothers of their children. Where that does not happen, the widespread if not unanimous expectation is that such fathers should still make a major contribution to the parenting of their biological children.

The major parental contributions are caregiving and providing. While mothers have often been thought of as caregivers and fathers as providers, the concept of family values does not imply that one parent should be sole caregiver and the other sole provider. For two-thirds of today's parents, such specialisation is an anachronism (Birrell and Rapson, 1998, p.39). Furthermore, there is a growing body of literature that supports the commonsense view that it is in children's interest if they form relationships with their fathers.

The institutions of modern economic society - in particular the tax system and the social security system - help to undermine society's commitment to family values. This occurs when there are diminished financial incentives for either parent to remain in a marriage relationship, or increased financial incentives for parents to separate. These incentive effects work at the margin, which means that the consequences are predictable. A relationship facing difficulties can be tipped to breaking-point when the tax-benefit calculus faced by either partner suggests that the other partner is dispensable. Nowadays, women both leave relationships and initiate divorce more frequently than men (Ansley, 1997, p.19, Birrell and Rapson, 1998, p.39).

There are many reasons that lead to fathers playing an incomplete role in the raising of their children. Financial factors arising from public policy may not be the most important of those reasons. Nevertheless, fiscal and welfare incentives do lead to more parental separations than would otherwise be the case if those incentives were not there. And tax-benefit considerations (which include mandatory "child support" payments) increase the difficulty of maintaining caregiving relationships between fathers and children following a marital separation.

## **THE NEW ZEALAND INCOME TAX AND BENEFIT SYSTEM**

The New Zealand income tax regime is partially integrated with the social security system. The key differences are that (i) there are two different institutions with historically different roles - the Inland Revenue Department (IRD) and Work and Income New Zealand (WINZ) - and (ii) that the taxation authority has an individual focus whereas the social welfare agency (WINZ) explicitly targets families.

There has been a marked convergence in the cultures of the IRD and WINZ. The predominant culture, which emphasises compliance over assistance, is a key part of the problem. "Moral hazard" is seen as the problem which both agencies must address. Normal "independent" families, receiving at least one fulltime-equivalent wage, are not able to receive much support from tightly targeted welfare programmes which, by definition, channel support to families that deviate from that presumed norm. A high proportion of New Zealand's children now lives in families in which there is no fulltime-equivalent wage.

While most benefits are paid through WINZ, an important class of secondary benefits - called Family Support, Guaranteed Minimum Family Income, and Independent Family Tax Credits - are paid by the IRD. These benefits have a very explicit family focus, which is counter to the individualist culture of the IRD. The IRD, through its Child Support Agency, also passes on "liable parent" payments to custodial parents (mainly mothers) who are living apart from the non-custodial parent and who are not receiving a benefit from WINZ.

The compliance cultures of the two institutions have merged, to the point that they are best understood as one. WINZ seeks to minimise benefit payments through increasingly stringent work-test requirements (*NZ Herald* 1999a), through its television campaigns against benefit fraud, and through an active prosecution policy of alleged benefit fraudsters "dobbed-in" by neighbours. The IRD seeks to maximise the revenue that can be collected within prevailing legislation (*NZ Herald* 1999b). Benefits paid by the IRD and by WINZ both emphasise nuclear families, thereby failing to take into account the economic nature of, say, Maori extended families.

Unlike many other countries including Australia, New Zealand families' principal providers (which more often than not means fathers) do not receive tax allowances or rebates. All labour income is taxed individually, at a marginal rate of 15% (for the first \$9,500 of annual income), 21% (for income in the range from \$9,500 to \$38,000), or

33%. An additional 1.2% is payable to the ACC (Accident Compensation Commission). If a father is separated from his family, he loses no tax allowances, so his after-tax income (before child support) does not fall. There is no direct tax incentive for him to stay. (However, if he is leaving a second marriage with children, his child support liability with respect to the children of his first marriage will increase markedly.)

Many parents pay additional income tax in the form of a tertiary study loan repayment. This is an additional 10% on the income tax rate, for annual incomes in excess of \$14,716 in the 1998/99 tax year. Thus, for practical purposes, given the requirement of some form of tertiary education for today's labour market, the income tax scale for parents of young children is, more often than not, as shown in Table 1.

**Table 1: Income Tax Rates incorporating Tertiary Education Repayments and Accident Compensation levies**

\$0-\$9,500 pa (\$0-\$183 pw)	16.2%
\$9,500-\$14,716 pa (\$183-\$283 pw)	22.2%
\$14,716-\$38,000 pa (\$283-\$731 pw)	32.2%
\$38,000 pa (\$731 pw) and over	44.2%

Compared to Australia, these tax rates are high for lower income earners, and are low for high income recipients (Australian Tax Office 1998). Fathers of young children tend to have below-average incomes. Since the 1970s, the real incomes of young men have fallen markedly relative to their fathers' incomes (Rankin 1993).

The two most important forms of assistance available to families with employment income are family support tax credits (FS, paid by the IRD) and accommodation supplements (AS, paid by WINZ). Family support is paid to the principal caregiver, usually the mother. It is subject to abatement of either 18% or 30% of gross family earnings, depending on the level of combined parental income. Accommodation supplements are payable to couples and individuals whether or not they have children in their care. They are subject to an abatement rate of 25% on parental income, plus an asset test. Payments to couples are split into equal payments to each parent.

Families with gross annual incomes below \$39,200 (St John and Rankin 1998) qualify for a Community Services Card (CSC) which entitles all family members to some health care subsidies. Individuals on low incomes also qualify. The CSC is administered by WINZ.

For "dependent" families - ie two-parent households without a fulltime equivalent wage - the parents, if not eligible for an Invalids Benefit or New Zealand Superannuation, must apply together to receive the Community Wage (CW). Depending on the age of the youngest child, one or both parents must be actively seeking full-time employment to qualify. Accommodation supplements and family support tax credits are also

payable, but are abated differently from "independent" families. The community wage abates at 70% of gross income if parental income exceeds \$80 per week.

For single parent families, a Domestic Purposes Benefit (DPB) is payable instead of the community wage. The DPB is nearly as high as the total community wage payable to both parents. And it abates at only 30 cents in the dollar unless the recipient's gross income exceeds \$180 per week or unless the youngest child is aged over 14.

## **CHILD SUPPORT**

The Child Support Agency (CSA) of the IRD levies a surcharge on the incomes of non-custodial parents, most of whom are fathers. The minimum payment is \$10 per week. While a mother not receiving a benefit from WINZ may make a voluntary arrangement with the father, she has the option of unilaterally cancelling that arrangement and replacing it with the standard "formula assessment" surcharge applied by the CSA. A mother on a benefit has her benefit cut if she does not name the father of her child. Biological fathers who have never cohabited with the mother, and may not even know they are fathers, are caught in the child support web.

The formula assessment applies to incomes of liable parents within a range, starting anywhere between \$11,000 and \$30,000, and finishing for all at \$64,478 in the 1998/99 tax year. Depending on the number of children for whom they are liable, such fathers pay between 18% and 30% of their qualifying gross income to the CSA. Child support bears most strongly on middle-income liable fathers, and acts to discourage low-income fathers from raising their incomes.

From the moment of their child's conception, fathers are liable in law until the child is 19 years old. It is only mothers who have the discretion to remove that liability, by terminating the pregnancy, by placing the child for adoption, by bypassing the formula assessment, or by refusing to name the father.

The financial consequences of not gaining at least shared-custody of one's child following a separation have created an additional source of conflict between separating couples, thereby making it much harder for non-custodial fathers to fulfil their caregiving obligations. Child support payments make no difference to the children where the custodial parent is on a benefit, but make it much harder for non-custodial parents to make a contribution that does make a difference to their children.

## **EXAMPLE**

A typical 30-something two-parent nuclear family living in the 2000s - the first decade of the 21st century - is likely to be Mum working part-time, Dad working full-time, plus 2 children. Some of the fathers in such families will have conceived a child many years earlier, while a teenager or while in his early 20s. Such fathers will be paying child support if the mother decided to raise the child as a solo parent.

The example I will present is that of such a family: husband, wife and two children, say 7 and 5 years old. The wife has a stable part-time job which brings her a gross income of \$200 very week. The father has an outstanding student loan and child support liabilities for a child that he fathered as a teenager during a casual relationship.

Table 2 reveals the father's effective contribution to the family budget for income levels ranging from \$0 (meaning he's unemployed and receiving the community wage) to \$800 per week. In addition, it shows the family income if the couple separate and the mother, while keeping her part-time job, goes onto the domestic purposes benefit.

**Table 2: Family living in Wellington and paying \$250 per week rent**

Father's Gross Income	Parents' Gross Income	Benefits; IRD/WINZ	Income Tax	Other Levies on Family Income	Combined Net Income after Rent	Effective Marginal Tax Rate
\$pw	\$pw	\$pw	\$pw	\$pw	\$pw	%
0	200	367.16	-68.51	-12.40	236.26	83.7
100	300	284.81	-68.68	-13.60	252.53	83.7
200	400	206.18	-62.08	-14.80	279.30	65.2
300	500	163.18	-83.08	-17.70	312.40	75.2
400	600	111.68	-104.08	-28.90	328.71	87.2
500	700	56.68	-125.08	-40.10	341.51	87.2
600	800	7.47	-146.08	-64.40	346.99	80.2
700	900	0.00	-167.08	-93.60	389.32	50.2
800	1000	0.00	-196.38	-122.80	430.82	62.2
leaves	200	380.87	-77.63	-2.40	250.84	92.2

The average EMTR for the first \$600 of the father's earnings is 81.5%

If the father is unemployed, the disposable income of the family is \$236. If he gets a job paying \$600 per week before tax, the disposable income of the family rises to \$347. Thus, for earnings of \$600, close to the median fulltime wage, his earnings contribute an additional \$111 to the family budget. For the first \$600 that he earns each week, the average effective marginal tax rate (EMTR) is 81.5%. If he manages to gross \$800, his earnings contribute \$195.

If the father leaves, at his own or his partner's instigation, the disposable income of the residual family is \$14 higher than it would have been for the whole family if he was unemployed. On the DPB the mother receives over \$250 after rent, although that would fall by nearly \$14 if she had an outstanding student loan. Assuming that it costs an additional \$100 per week to support an adult male, a traditional live-in father would need to be earning more than \$600 per week to make the family better off financially.

How would the father get on living apart from his wife? Table 3 shows his situation as a single non-custodial parent with three children for whom he is liable. In order to maintain a minimally satisfactory relationship with his children (access at least every second weekend), he would need to rent a two-bedroom apartment, at say \$200 per week. If unemployed and receiving a community wage, his disposable weekly income would be just \$2.34. That amount rises to \$143 per week if he can secure a steady job grossing \$600, and to \$216 if he can gross \$800. (The legal minimum wage for a 40 hour per week job is \$280 gross per week. With many jobs today paying wages at or close to the adult minimum wage, \$600 per week should not be regarded as a low wage.) His average EMTR for the first \$600 dollars is 76.5%. As well as supporting himself, it is out of this disposable income that he must support his children when they are with him.

**Table 3: Estranged father living in Wellington and paying \$200 per week rent**

Father's Gross Income	Benefits; WINZ only	Income Tax	Levies on Father's Income	Net Income after Rent	Effective Marginal Tax Rate
\$pw	\$pw	\$pw	\$pw	\$pw	%
0	238.34	-26.00	-10.00	2.34	41.2
100	201.87	-42.98	-11.51	47.38	92.0
200	119.52	-46.69	-17.47	55.36	92.0
300	49.29	-52.04	-27.25	70.00	84.2
400	24.29	-73.04	-65.45	85.80	84.2
500	0.00	-94.04	-103.65	102.31	59.2
600	0.00	-115.04	-141.85	143.11	59.2
700	0.00	-136.04	-180.05	183.91	59.2
800	0.00	-165.35	-218.25	216.40	71.2

The average EMTR for the first \$600 of earnings is 76.5%.  
The Child Support levy at \$600 gross per week is \$103.

The father's child support payments will make no difference to his estranged wife or to his children while she is receiving a benefit from WINZ. The mother of his first child, who I will assume is not on a benefit, will suddenly find her child support payments halved.

While the father's net financial contribution to his family might be very small, he has a financial incentive to stay and be financially supported by family support and accommodation benefits targeted towards his partner and children, however demoralising that may be. The mother, however, has a significant financial incentive to induce a separation. If she is to do so, she must do so in a way that minimises the chance of her partner gaining custody of their children.

Of course most parents do not calculate their effective marginal tax rates and then decide whether or not to separate on that basis. Most of the time they stay together because the non-financial incentives to do so exceed any financial incentives to separate. The analysis here, however, focuses on the financial incentives, which become important when the relationship is stressed. Furthermore, the financial circumstances of many ordinary families create just the stress that leads people to separate when the financial incentives favour separation. Financial and non-financial factors favouring separation can be mutually reinforcing.

## **SOCIAL AND INDIVIDUAL CONTRACTS FOR REPRODUCTION**

Families are fiscally exploited. Families in general and fathers in particular find themselves in this situation because the social contract that underpins social reproduction has been repudiated by the culture of the WINZ and IRD agencies, and by the legislation that underpins that culture. The official view is that reproduction is essentially a private matter.

The state has a financial interest in the family staying together. The total amounts of benefits payable to a four-person family are significantly higher if the parents separate. Furthermore, the demand for housing increases as separated families increase the number of households. The rental value of the housing stock rises, and accommodation supplements payable to non-separating families increase. In a sense, the state assumes that the demand for parental togetherness is "price inelastic". The government taxes price-inelastic commodities (eg petrol, alcohol), and treats nuclear families like such commodities.

How can we improve this situation which leads to the destruction of financially pressured families, which can render caregiving fathers quite helpless, and which carries considerable fiscal risk to the state?

It is necessary to make explicit the two distinct contracts which govern family life at each of the macro and micro levels. Parents have obligations to each other, and society as a whole has contractual obligations to parents.

At the macro level is the social contract between the state (representing society as the collective beneficiary or reproduction) and the population of reproductive age. The purpose of this unwritten contract is to bring into the world a new generation, both large enough and capable of supporting their parents' generation and maintaining the traditions and culture that ensures that the life of a society is indefinitely long. From the perspective of the social contract, children are a gift from parents to society. Society as the beneficiary of that gift, has the commonsense reciprocal responsibility of investing in its bequest. Society dies in the absence of the ongoing gift relationship that is initiated by parents.

At the micro level is the contract between father and mother. The decision to conceive a child, or to stay together and raise a child whose conception was not planned,

constitutes a contract to together gift a young person to society. From the point of view of fathers, the fulfilment of their contract involves both making a difference financially and being an active caregiver. This applies whether or not they are custodial parents.

The nature of the parental contract has become more explicit in recent years, as the weight of case law relating to the 1991 Child Support Act emerges. For example, a recent judgement (*NZ Herald* 1999c) confirms that a lesbian co-parent had a parental contract with respect to the children her former partner gave birth to. At the same time, the biological father, a friend who donated his semen informally, did not have a parental contract with the mother.

The social contract implies public support for all parents. As a part of that obligation, the state needs to maintain an environment that is supportive of parents who wish to support their children. A welfare state that targets families rather than individuals within families can lead to fathers in particular becoming financially redundant. Their contributions make little difference; they are not recognised as being important. Indeed, as the above example suggests, fathers are often a financial burden on their families.

The targeting state in New Zealand takes the view that all support for children should come from the parents, and that the state's role is only to pick up the pieces when adequate parental support is missing. Hence, the current philosophy of the domestic purposes benefit is that it is a backstop for the support of "deserted wives". Thus, where the allegedly deserting male does make a financial contribution, it is the state and not the family that has the first call on that contribution. (The state does not acknowledge that many if not most non-custodial fathers did not leave their partners.) It is this process of benefit recovery that does more than anything to prevent non-custodial fathers from making a positive difference to their children's lives. Money levied by the IRD that goes directly to Treasury is money that fathers cannot spend on their children or when they are with their children. Nor can it be spent by the mothers of their children.

The contract between parents is more than a financial contract. It is also a contract to share in the caring of their children. So any incentives that set a mother's financial interest in opposition to the father's undermine the ability of parents to care for their children in a mutual and cooperative way. Instead, these kinds of rules beget legalistic solutions, through an adversarial legal system which virtually obliges both parents to spend money on lawyers instead of on themselves and their children. Lawyers are hired to help either side prevail in conflict, and not to act in society's interest or in the mutual interest of the family members. Intra-family conflict is a case of the "Prisoners Dilemma" situation (explained in many economics textbooks) through which a lack of cooperation between the interested parties leads to a "lose-lose" situation.

### **SOLUTIONS (1): A NEW CONTRACT BETWEEN PARENTS AND THE STATE**

How do we find a solution to the fiscal pressures that pull families apart and render many fathers redundant as providers and as carers? It is my view that we need to



integrate the fiscal agencies and welfare agencies - WINZ and IRD - under a new culture that emphasises public property rights, which means the right of all tax citizens to draw on the social wage made possible by collective economic development. In practice that means more universal and fewer targeted benefits. The philosophy is expressed in my article "A New Fiscal Contract?" (Rankin 1997).

Essentially, it requires a shift to a "Basic Income / Flat Tax" (BI/FT) public accounting system (Atkinson 1995). I have shown in an article on the Internet (Rankin 1998) that it is possible to immediately shift to an integrated income tax and benefit system, by introducing a flat income tax at 39%, to be offset by a social dividend of \$123pw payable to all adults regardless of income. (\$123 pw is the present level of community wage for "married" persons and single persons under 25 years old.) This social dividend would be supplemented by a flexible benefit, designed to achieve "vertical equity"; treating people with different underlying needs differently. In my specific proposal, this supplementary income would be subject to an abatement rate of 25%.

So long as child support formula assessments are replaced by an individualised maintenance system, the maximum EMTR faced by anyone would be 64%, which is certainly lower than the 83% of Table 2 and the 76.5% of Table 3. Most men and women would face an EMTR of 39%. Under this proposal, the substantial majority of single-income two-parent families would be financially better off than they are at present.

As a result of such a change, all men and women who give up fulltime employment to care for children would receive a minimum of \$123 per week in addition to any employment income. Although an addition to the private income of each parent, such a social dividend serves as the financial equivalent of the parental benefit that Dara Walsh (1999) has recently called for. The individual focus of the integrated BI/FT tax-benefit culture means that the contribution of either parent does not undermine the contribution of the other.

Student Loan living allowances and repayments could be incorporated into this new structure, meaning that students would get the same universal allowance of \$123 per week throughout the year instead of living allowances. Repayments would be covered by the higher general tax rate of 39%.

## **SOLUTIONS (2): A CHILD SUPPORT REGIME THAT REQUIRES PARENTS TO NEGOTIATE**

Before decisions are made about custody, access and financial support from the non-custodial parent, it should be necessary to establish whether there was a parental contract between the biological parents. Where there is agreement that there was no mutual decision to have and to keep a baby - as in many teenage pregnancies - then it might be most appropriate to annul the father's financial liability, and his status as guardian of the child. Once conceived, the decision to keep an embryo is that of the

mother alone. With the existence of the "morning-after contraceptive" there need be no risk of pregnancy to a woman from a casual sexual liaison.

Guardianship is a concept that can form the basis of a parental contract. A father or mother should be able to concede formal guardianship rights with the agreement of the other parent. (An existing example is a mother who gives her child for adoption.) All surrogate parents - male or female - would not be guardians and would not be liable to make an ongoing contribution to the raising of resulting children. The same would apply automatically where a prostitute conceives a child. She has a contract with her client, but certainly not a parental contract.

Under this kind of legal ruling, which is fully consistent with the position that I am advocating, once a parental contract has been deemed to exist, that contract cannot be repudiated. Thus, in the case of teenage parents, where a teenage father accepted parental responsibility and was allowed to contribute as a parent, then that should be understood as a permanent contract.

When a parental contract exists, then it should be up to both parties of a separation, in the presence of a mediator if necessary, to map out their ongoing contributions and obligations. A kind of mission statement by both parents would enable practical changes as each parent's circumstances change over time. Once this process is complete, custody could be granted and the Child Support Agency could play a role in enforcing any financial component of that agreement. All such post-separation contracts would be unique to each couple, and they would involve no payments to the state in lieu of any benefits paid. The emphasis would always be on each parent seeking mutually agreeable ways of putting the affected children's interest first.

The result of this approach is that all child support payments would be set through agreement or mediation, and not through the present "a one formula fits all" assessment that operates as a *de facto* income tax. Even more importantly, the artificial separation between the providing, caring and mentoring obligations of parenthood would be bridged.

## **CONCLUSION**

Fathers need to be able to feel that they make a difference to the lives of their children, both within a marriage relationship and following a separation. They need to feel that they make a difference, as carers, as role-models, and as providers.

The state, as the institutional embodiment of society, must fulfil its contractual obligation to support its children. After all, we are talking about a process of social reproduction in which it is society collectively and not parents who gain an economic benefit from the raising of their children.

In 1990s' New Zealand, state institutions have acted to minimise the state's contribution to the raising of children while also making it very difficult for fathers to make a

difference to their children's lives. In doing so, the state confuses parental liability with parental responsibility. The result is that fathers, children, mothers and future society itself each suffer a significant loss in wellbeing. Our children deserve the best that their fathers can provide for them and share with them.

We need to remove the fiscal and welfare barriers that at present devalue both the provider and caregiver roles of fathers. We need to move towards a tripartite system of mutual responsibility for children, and not one of formulaic liability. Children, fathers and mothers all deserve a supportive environment. Moral hazard, which underpins the present cultures of both the IRD and WINZ, is not the central problem that family policy should be addressing.

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