# The Value of Family

Fiscal Benefits of Marriage and Reducing Family Breakdown in New Zealand

REPORT TO FAMILY FIRST NZ, FEBRUARY 2023



## **REPORT TO FAMILY FIRST NEW ZEALAND**

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## **ABOUT FAMILY FIRST NZ**

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- to promote and advance research and policy regarding family and marriage
- to participate in social analysis and debate surrounding issues relating to and affecting the family
- to educate the public in their understanding of the institutional, legal and moral framework that makes a just and democratic society possible
- to produce and publish relevant and stimulating material in newspapers, magazines, and other media relating to issues affecting families
- to speak up about issues relating to families that are in the public domain

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## **Executive Summary**

This report is an update of the previous 2008 NZIER report commissioned by Family First NZ (NZIER, 2008). We hope to present in this report the stark differences that have occurred in New Zealand (and the world) during the last fourteen years.

Indeed, there were several significant changes in the years following the 2008 financial collapse through to 2019. And then everything changed with the announcement by the World Health Organisation in early 2020 of a worldwide pandemic, the outbreak of a SARS COV-2 virus referred to as COVID-19. The negative impact on the family unit has been magnified in the last nearly three years.

Complete data is available for the period up to 2019, but there is less for the last three years. This report will identify the trend up to 2019 and include the last three years where possible.

Probably the most significant change came in 2013 with the

Marriage (Definition of Marriage) Amendment Act 2013 that redefined marriage as the union of two people, regardless of their sex, sexual orientation, or gender identity. Other notable legislative changes have been the introduction of the Child Poverty Reduction Act of 2018 and the Child Support Amendment Act 2021.

The research we have conducted will present to you the reality of the economic effects experienced by the family unit in New Zealand that show the increasing challenges that have faced families and will likely continue unless something dramatic happens. It is evident that the breakdown of the family unit has far-reaching implication into two of New Zealand's major crisis areas – housing and mental health. Both of these areas need to be addressed by sound community based support.

There has not been any change in debate on social policy issues concerning the family breakdown and decreasing marriage rates, although an increased focus has been on children in poverty and the uplifting of children from abusive home situations.

 The previous report showed how the marriage rate had declined from 1971 from 46 marriages per 1,000 unmarried people older than 16 to around 14 in 2007. This has continued to decline to under 10 in 2019, with projections for 2020 and 2021 being even lower at 8.3 and 7.7 respectively, However, the indications are that the latter part of 2022 and into 2023 will see

a resurgence of marriages for those who could not get married because of lockdowns and border closures.

 The duration of a marriage ending in divorce has not changed significantly in over 20 years. The medium duration was 13.5 years in 2021, compared to 13.3 years in 2006 and 12.8 in 1999. What has changed is the age of both men and women getting divorced. Since 1999 until 2021 the age of divorce for men has increased by 5.5 years to 46.7, and for women, it has also increased by 5.5 years to 43.9. This could be attributed to the average age of marriage increasing also.

It is evident that the breakdown of the family unit has farreaching implication into two of New Zealand's major crisis areas – housing and mental health.

There has not been any change in debate on social policy issues concerning the family breakdown and decreasing marriage rates.

- In 2021 births registered to married or civil union parents represented 50.8% of all births, whereas births to de facto, no legal or not recorded relationships amounted to 49.2%.
- The teen birth rate in New Zealand is still relatively high by OECD standards, particularly for young Māori and Pacifika women. Teenage childbearing has a long-lasting effect on the wellbeing of the women and children involved, including interrupted education, reduced earning potential, and reduced career prospects.
- In 2018 sole parents with dependent children made up 30 percent of families with children, the same as the two previous censuses, 2013 and 2006. Poverty and living standards research in New Zealand have illustrated that sole parents have the lowest average living standards of all economic family unit types. Māori and Pacifika women

The teen birth rate in New Zealand is still relatively high by OECD standards, particularly for young Māori and Pacifika women.

were more likely to be sole parents compared to women from other ethnic groups.

• The interaction of a range of tax-benefit programmes creates marriage penalties and poverty traps, particularly for families with children. Marriage penalties mean that some people are discouraged from entering into, or remaining in, a relationship in the nature of marriage by the tax-benefit system. Poverty traps occur when there is a range of hours of work where, due to taxation and the clawback of assistance, there are few or no financial incentives for people to enter into, or remain in work, or to increase their hours of work or wage rates.

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

Measuring the costs of family breakdown and decreasing marriage rates raises many challenges. Failing to consider and debate these costs would, however, mean that we would have little chance of understanding some of the most important issues facing New Zealand's most vulnerable families.

While divorce may on occasion help avoid negative family outcomes (such as in high conflict situations), international research suggests that the private costs of divorce and unmarried childbearing include increased risks of poverty, mental illness, infant mortality, physical illness, juvenile delinquency and adult criminality, sexual abuse and other forms of family violence, economic hardship, substance abuse, and educational failure. In this report, emphasis is given to the effect of family breakdown and decreasing marriage rates on poverty among families with children.

In the UK, for example, family breakdown is rarely seen as a social problem and current statistics indicate a reduction in the last decade; it remains one of their major problems. Evidence suggests that family breakdown has significant implications for individuals, families, and society. Although seldom perceived as a social problem, its potential consequent impact on parents and particularly the children

The interaction of a range of tax-benefit programmes creates marriage penalties and poverty traps, particularly for families with children.

involved should be of immediate concern (Ayomide, Oluseye, and Aaron F. Mvula, 2022).

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

Estimates of the fiscal cost to taxpayers of family breakdown and decreasing marriage rates (gross of any potential benefits from the ending of high conflict relationships) are shown below. These estimates are based on expenditure in the 2022 Budget and include the significant cost of emergency housing due to the ongoing housing crisis. Assumptions have been made in this study that take a conservative approach to the taxpayer cost of family breakdown and decreasing marriage rates.

Based on the assumptions employed, the fiscal cost to the taxpayer of family breakdown and decreasing marriage rates has been estimated at around \$2 billion (around \$520 per taxpayer) in 2020-2021, even before we consider the potential for family breakdown and decreasing marriage rates to lead to foregone tax revenue. The cost has doubled since 2008 9 when the fiscal cost was just \$1 billion or \$200 per \$20 per \$20 per \$20 per \$200 per \$20

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Category	Scenario 1 (\$millions)	Scenario 2 (\$millions)	Scenario 3 (\$millions)
Social Development	761	869	978
Working for Families Tax Credit	566	647	728
Health	205	234	264
Justice	22	26	29
Corrections	57	66	74
Police	73	83	94
Housing	61	70	79
TOTAL	1,745	1,995	2,246

#### Fiscal cost to the taxpayer (2020-2021)

Sources: Budget Economic and Fiscal Update (2021)

Note: Scenario 2 is based on an assumed relationship between family breakdown and family poverty of 20 percent, and scenarios 1 and 3 are based on a range around this assumption of 5 percent (17.5 percent and 22.5 percent).

If it is assumed that the assumptions employed remain unchanged since the last report, the aggregate fiscal cost to the New Zealand taxpayer over the last decade is in the order of \$21 billion (based on a 20 percent relationship between family breakdown and family poverty).

These estimates of the annual cost to New Zealand taxpayers can be compared to estimates of £51 billion a year (£1,584 per taxpayer) in the United Kingdom (Ashcroft, 2018). This has increased

The fiscal cost to the taxpayer of family breakdown and decreasing marriage rates has been estimated at around \$2 billion (around \$520 per taxpayer) in 2020-2021. from £15 billion in 2000. In the United States, a ground-breaking report in 2008 estimated the cost at \$112 billion a year (US\$811 per taxpayer) (Scafidi, 2008). The cost today would be in the region of \$225 billion a year.

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

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

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

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

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

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

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## 1. Introduction

Family breakdown and decreasing marriage rates are seldom considered in debate on social policy issues, such as family poverty, in New Zealand. An August 2022 104-page report issued by the Children's Commissioner to the UN Children's Committee on the Rights of the Child, for example, contained no reference to marriage, divorce, or parents' separation. There was much emphasis on the wellbeing of children, but no correlation to their wellbeing and the breakdown of the family unit (Judge Frances Eivers 2022).

Yet there are several features of the New Zealand environment that suggest it is unwise to overlook family breakdown and decreasing marriage rates in New Zealand. These features include internationally high rates of teen childbearing, internationally high rates of sole parenthood, and significant marriage penalties created by income transfer programmes, particularly for families with children.

To help develop the evidence base on family breakdown and decreasing marriage rates in New Zealand this report considers the private and social costs of these phenomena. The objective is not to criticise particular family types, but to understand these costs and to support debate on the ways in which they may be lowered (particularly through increasing family resilience (Kalil, 2003; Mackay, 2003)).

Measuring the costs of family breakdown and decreasing marriage rates raises many challenges. Failing to consider and debate these costs would, however, mean that we would have little chance of understanding some of the most important issues facing New Zealand's most vulnerable families.

The key components of this report are:

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

This report concludes with several recommendations for government policy.

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

## 2. Marriage and Parenthood

New Zealand families are becoming more diverse. Since the 1970s, New Zealand has seen the breakdown of the traditional model of marriage. There has been a significant shift in social arrangements, increasing numbers of sole parent families, increasing numbers of dual-income families, people increasingly cohabitating without entering into marriage, and the legalisation of same-sex marriages. The first part of this report thus discusses the trends for marriage and parenthood in New Zealand.<sup>Note 1</sup>

#### 2.1 Marriage

Statistics New Zealand calculates the general rate of marriage as the number of marriages per 1,000 not-married or in a civil union estimated population aged 16 years and over. Figure 1 shows the general rate of marriage in New Zealand from 1986 to 2021.

Although there have been year-to-year variations, the marriage rate has been declining since 1986 (when there were 24,036 marriages (4,385 remarriages), giving a marriage rate of 25.29 per 1,000 people over 16). The current marriage rate is low in historic terms. There were 19,071 marriages registered during 2019, which gave a general marriage rate of 9.66 per 1,000 people over 16, the first time it fell below 10. Of these marriages, 5,268 were remarriages. The provisional numbers for 2021 were 15,567, dropping the general marriage rate to only 7.72 per 1,000. Remarriages are only 4,146, provisionally.

#### Figure 1 General rate of marriage



Per 1,000 not-married persons or in civil union aged 16 and over

Source: Statistics New Zealand

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

A greater proportion of people are remaining in relationships in the nature of marriage without entering into formal unions. These de facto unions are becoming particularly common for

Note 1. Data limitations mean that this report does not differentiate between biological parents and stepparents (e.g., partnered parents who have remained in the one relationship are treated as equivalent to step-parent families). younger New Zealanders. As Statistics New Zealand noted, in 1996 around one in four people (25%) aged 15 to 44 in a partnership were not legally married, this had risen in 2006 to around two in five (40%), and now stands closer to one in two (50%).

Recent legislative change has provided partnering families (including same-sex families) the option of undertaking a civil union (2005) and the recognition of same-sex marriages (2013). The number of civil unions has decreased significantly since 2013. There were 390 civil unions in 2012, 231 in 2013, and only 57 by 2021. If we exclude overseas-

A greater proportion of people are remaining in relationships in the nature of marriage without entering into formal unions.

based civil unions, the figures drop to 303 in 2012, 186 in 2013, and 54 in 2021.

In 2021, only 231 marriages and civil unions were registered to people who indicated they lived overseas. In 2019, prior to COVID-19, there were 2,892 marriages and civil unions to people living overseas. This dropped to 1,248 in 2020. Border restrictions due to the COVID-19 pandemic impacted this – 90 percent of marriages and civil unions for those that lived overseas in 2020 were registered before border closures occurred (Statistics New Zealand, 2021).

The number of same-sex marriages as a percentage of all marriages peaked in 2016 and 2017 at 4 percent, but then it has declined to the current rate of only 2 percent.

In contrast to the overall marriage rate, the proportion of marriages in which one or both partners had previously been divorced or widowed (the remarriage rate) has remained steady until the last few years. It reached a high of 36.8 percent of marriages that involved one or both partners remarrying in 1996, and then remained steady around 30 percent through to 2015. Since then, the rate has declined to around 26 percent in 2020 and 2021.

In 2021, the median age at first marriage or civil union was 29.6 years for women and 30.7 years for men, compared with 27.5 and 29.3, respectively, in 2001. In 1971, when marriage rates peaked, the median age at first marriage was 20.8 years for women and 23.0 years for men.

The median age at marriage for all marriages (rather than just first marriages) has been slowly increasing since the early 2000s, following much larger increases since the 1970s.

In 2021, the median age of males marrying was 32.2 years

Marriage and divorce are far less common than in the past. (Statistics New Zealand, 2018)

and 30.8 years for females. The median age for females in 2021 was tied with 2020 for the highest on record (the highest male median age was 32.6 years in 2006). The upturn in the median duration of marriage may be attributed partly to the breakdown of more long-term marriages, particularly those over 25 years duration (Statistics New Zealand, 2021).

*"Marriage numbers have been steady, but a rising population means the general marriage rate continues to fall,"* population insights senior manager Brooke Theyers said. *"Marriage and divorce are far less common than in the past"* (Statistics New Zealand, 2018).

#### 2.2 Divorce

The divorce rate is calculated as orders for dissolution of marriage granted in New Zealand per 1,000 estimated existing marriages. Figure 2 shows the trend in the number of divorces and divorce rate in New Zealand since 1981.

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

#### Figure 2 Divorce Rate

Per 1,000 marriages



*Source: Statistics New Zealand, 2022* 

Consequently, divorce increased to a temporary high of 12,395 (a rate of 17.1 per 1,000 marriages) in 1982. Since this date the number and rate of marriage dissolutions dropped but between 1986 and 2004 remained steady around 12 to 12.8%. Since then, until 2019 the divorce rate has declined to only 8.4 per 1,000 marriages. The provisional rates for 2020 and 2021 are even lower at 7.6 and 6.2 respectively.

A key trend relating to the social outcomes of divorce is the changing number of children in divorcing families. The decreasing divorce rate coincides with a decrease in the number of children whose parents divorced.

As shown in Figure 3, since 2002 the number of children in divorcing families has decreased from 8.946 (relating to 4,731 divorces, with a mean number of children per divorce involving children of 1.9) to 4,842 in 2021(relating to 2,703 divorces, with a mean number of children per divorce involving children of 1.79). The mean number of children per divorce involving children has fallen significantly until 2010 but has stayed relatively stable since then.

The mean number of children per divorce involving children has fallen significantly until 2010 but has stayed relatively stable since then.

In 2021, 4,842 children under 17 years had parents who were granted a divorce, down from 7,578 children in the previous report in 2008.

#### Figure 3 Children in divorcing families

10,000 2 9,000 1.95 8,000 7,000 1.9 6,000 5,000 1.85 4,000 1.8 3,000 2,000 1.75 Number of children Average per divorce with children 1,000 Ω 1.7 1990 1992 1994 1996 1998 2000 2002 2004 2006 2008 2010 2012 2014 2016 2018 2020

Number of Children (Under 17)

Source: Statistics New Zealand, 2022

One factor in the decreasing numbers of children in divorcing families is the increasing age at which divorce is taking place. In 1999, the median age at divorce for males was 41.2 and for females was 38.4. By 2021 this had increased to 46.7 for males and 43.9 for females. This later age of divorce is likely to partly reflect the trend towards later marriages (Statistics New Zealand, 2022). The interesting fact is that both male and female median ages increased the same, by 5.5 years!

#### 2.3 Teenage parents

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

#### **Teenage births**

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

The recent trend for births to teenage mothers is illustrated in Table 1. The table shows that the percentage of births to teenage mothers remained relatively static from 2005 to 2010 around 7.2% but has decreased significantly since then to 2.7% in 2021. This data indicates a longer-term trend towards decreasing percentage of births to teen mothers. This raised the question if this downward trend was due to increased teenage abortions.

It is also necessary to recognise that a proportion of teen parents are either legally married or in relationships in the nature of marriage at the time of the birth of a child.

#### Table 1 Live births by mother's age: 2005 to 2021

	Median Age of Mother (Years)	Number of Teen Births*	Teen Births as Percentage of All Births
2005	30.4	4,134	7.2
2010	30.3	4,374	7.4
2015	30.2	2,865	4.7
2016	30.3	2,481	4.2
2017	30.3	2,316	3.9
2018	30.5	2,076	3.6
2019	30.7	1,995	3.3
2020	30.8	1,893	3.3
2021	31.0	1,596	2.7

Source: Statistics New Zealand, 2022

\* Some births are counted more than once as each birth has been included in every ethnic group stated by the mother.

Teenage births by ethnic group are shown in Table 2. When discussing teenage births by ethnicity it is necessary to recognise that mothers and babies may belong to more than one ethnic group. Where mothers have recorded multiple ethnicities, each birth has been included in each separate ethnic group (meaning that some births are counted more than once). As Statistics New Zealand (2022) has noted, in the December 2021 year around 65 percent of Māori births to teen mothers, 49 percent of Pacifika births to teen mothers, 30 percent of European births to teen mothers and 31 percent of Asian births to teen mothers belonged to two or more ethnic groups.

#### Table 2 Live births by mother's age and ethnicity 2021

	Median Age of Mother (Years)	Number of Teen Births <sup>*</sup>	Percentage of Teen Births in Group
Māori Ethnic Group	27.7	951	7.3
Pacifika Ethnic Group	28.1	390	6.0
Asian Ethnic Group	32.3	39	0.3
European Ethnic Group	31.1	846	2.4
Middle Eastern, Latin American and African	N/A	N/A	N/A
Other	32	0	0
All Ethnic Groups (1)	31.0	1596	2.7

Source: Statistics New Zealand, 2022

\* Some births are counted more than once as each birth has been included in every ethnic group stated by the mother.

Table 2 nevertheless illustrates the relatively high percentages of births to teenage mothers for the Māori (at 7.3 percent of Māori births) and Pacifika (at 6.0 percent) populations. These rates of births to teen mothers are reflected in a relatively low median age of mothers for these people, of 27.7 years for the Māori and 28.1 years for the Pacifika populations.

For other ethnic groups, the percentages of births to teen mothers were 2.4 percent for European mothers, 0 percent for Middle Eastern, Latin American and African mothers, 0.3 percent for Asian mothers, and 0 percent for mothers identifying with other ethnic groups.

#### International teen fertility rates

Teen fertility rates are calculated by relating births to teenagers during a given year to the estimated number of teenagers in that year.

Teen fertility rates of New Zealand and a range of OECD countries are shown in Figure 4. Figure 4 indicates that New Zealand does not compare favourably with many of these countries.

The New Zealand teenage fertility rate (12.25 per 1,000 teenagers aged 15 to 19 in 2020) was second only to the United States (15.95 in 2020) and ahead of United Kingdom (11.18 in 2020) and Australia (10.55 in 2020). It was almost fifty percent higher than the rate of the European Union (8.57), and nearly twice the rate in Canada (7.33 in 2020), and three and a half times the rate in Japan and five times the rate in Switzerland.

In a historical context, within New Zealand the longer-term trend has been for the teen fertility rate to fall.

In the early 1970s around 65 out of every 1,000 teenagers had a child in any year. By the mid-1980s the figure had fallen to 32 per 1,000. Subsequently it varied between 30 and 35 per 1,000 until 2007 (World Bank, 2020).

There has been a general downward trend since then to a historical low of 12.18 per 1,000 in 2020 and the indication for 2021 are even lower at 10.31 (Statistics New Zealand, 2022).

There is an ethnic dimension to families' fertility. Both Māori and Pacifika women have larger families than their European counterparts, and they also follow early childbearing norms (Statistics New Zealand, 2022). This is partly reflected in higher fertility rates in teenage years:

- Māori teenagers (15 to 19) had a fertility rate of 29.46 per 1,000 females in the age group in 2021. This compared to a teenage fertility rate for the population as a whole of 12.18.
- Māori and Pacifika teenagers also have relatively high abortion rates, with teenagers accounting for 26.0 percent of Māori abortions and 20.9 percent of Pacifika abortions in 2006. These proportions are, however, lower than that for European teenagers (who accounted for 27.2 percent of this ethnic group's abortions in 2006). These proportions of abortions for which teenagers account suggest that fertility indices understate pregnancy levels among teenagers.

#### Figure 4 Teen fertility rates

18:00 16:00 14:00 12:00 10:00 8:00 6:00 4:00 2:00 0

Per 1,000 mean estimated female population in aged 15 to 19; data all 2020

Source: World Bank (2020), New Zealand Statistics (2022)

#### **Abortion rate**

Since 1980, there has been a significant increase in the rate and number of abortions in New Zealand. The general abortion rate (per 1,000 mean number of women aged 15 to 44) increased from 5.3 in 1979 to a peak of 20.8 in 2003 but has now steadily declined to 13.1 in 2019. The rate of live abortions per 1,000 births increasing from 70 to 177 (Statistics New Zealand, 2020).

Figure 5 shows the percentage of teenage abortions to all abortions. After doubling from 1980 to 2002 it has now declined to the 1980 rate of under 10 (Statistics New Zealand, 2003, 2020). However, the ratio of abortions per 1,000 births has increased from 105 to 177 over the last forty years (Statistics New Zealand, 2020).

The general abortion rate increased from 5.3 in 1979 to a peak of 20.8 in 2003 but has now steadily declined to 13.1 in 2019.

#### Figure 5 Teenage abortions 2002-2020

As a percentage of all abortions



Source: Statistics New Zealand (2020)

The abortion rate for teenagers aged 15 to 19 increased from 1996 (when the rate was 22.0 per 1,000 women) to 2007 (when the rate was 26.7 per 1,000 women). It has now declined to a rate of 9.3. The rate for teenagers aged 11 to 14 had also increased from 0.6 in 1996 to 0.9 per 1,000 women in 2006 but has now declined to just 0.2.

There was a total of 13,246 abortions in the December 2020 year. This represented a general abortion rate (per 1,000 mean number of women aged 15 to 44) of 13, or 186 abortions per 1,000 live births. The general abortion rate of 13 in New Zealand in 2020 was similar to that of Scotland (12.9 in 2018), the United States (13.2 in 2018), South Australia (13.2 in 2018), and England and Wales (18 in 2018).

Data since 1981 indicate that women aged 20 to 24 account for the largest proportion of abortions until 2017 when the women aged 25 to 29 account for the largest proportion (26.3%). However, women over thirty now account for 40% of abortions, up nearly 11% since 2003. This may indicate a lifestyle choice as more women stay at work longer to meet increased living costs.

The median age of women having an abortion in 2020 was 28, and this median age that had remained stable since 1996 (when the median age was 25.0) has steadily increased since 2013. (Abortion Services 2021).

#### 2.4 Sole parents

When discussing rates of sole parenthood, it is important to note that, although the discussion below emphasises the legal marriage rates of sole parents, a proportion of sole parents are in de facto relationships at the time of the birth of their first child and later marry.

There are, furthermore, important gaps in the descriptive data on sole parents in New Zealand (such as reasons for entering the Domestic Purposes Benefit and the degree to which separated families share income and caring responsibilities) (Callister and Birks, 2006).<sup>Note 2</sup>

The most comprehensive data source on sole parents is the five-yearly population census, which illustrated that in 2018 sole parents with dependent children made up 30 percent of families with children. This was down slightly from the level in 2013 (of 31.26 percent) but similar to the levels for 2006 (30.75 percent) and 2001 (31 percent).

Women made up 82.4 percent of all sole parents in 2018, a figure which had changed little since 1996 (85 percent). In 2018 the majority of female sole parents were aged between 25 and 44, and only 7.9 percent of female sole parents were aged under 25 years, down from 11.2 percent in 2006 (Statistics New Zealand, 2019).

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

It is important to note that a proportion of sole parents are in de facto relationships at the time of the birth of their first child and later marry.

Both Māori and Pacifika women

have larger families than their European counterparts, and

they also follow early

childbearing norms.

Differences in the age profile of male and female sole parents reflect differences in marital status. Women are more likely than men to be responsible for children born to relatively young parents who are not married or in stable de facto relationships, whereas male sole parenthood most commonly results from the dissolution of marriages or partnerships (Statistics New Zealand, 2019).

Male sole parents are less likely to be engaged in full-time work than female sole parents. In 2013, just under 10% percent of male sole parents were employed, with the majority (8.4 percent) working full-time (as opposed to 1.2 percent working part-time).

Alternatively, around 42 percent of female sole parents worked in 2013, with the numbers working full-time (26 percent) and parttime (16 percent) relatively evenly split (Statistics New Zealand, 2013).

The number of recipients of Sole Parent Support declined from 78,000 in January 2014 to a low of 58,500 in July 2018. Since then, it has increased to 61,000 by March 2020 (the start of lockdowns for Covid-19) and jumped in January 2022 to the current level of 73,000. Of these 48% per Māori, 42% European and 14.8% Pacifika. (Note: From December 2021, the ethnicity reporting changed to an approach called 'total response '. This means that if a person identifies with more than one ethnic group, they are counted in each applicable group (Source: MSD 2021)).

In 2021, births registered to married or civil union parents represented 50.8% of all births, whereas births to de facto, no legal or not recorded relationships amounted to 49.2% (Mitchell, 2022).

New Zealand's rate of sole parenthood is high by OECD standards. New Zealand's rate of birth outside marriage (of 47.6 per 1000 women aged 15 or over) for 2019 was seventh highest of the 29 OECD countries for which there was data (OECD, 2020). The concept of marriage used by the OECD does not include common law or de facto relationships.

The New Zealand rate compared the United Kingdom (48.2), the United States (39.6), Australia (35.2) and Canada (33). New Zealand's rate was lower than Denmark (54.2), France (60.4), Norway (56.4), Sweden (54.5), and Iceland (70.5).

Figure 6 compares New Zealand's rate of births outside of

New Zealand's rate of birth outside marriage for 2019 was seventh highest of the 29 OECD countries for which there was data.

marriage as a percentage of all births. The recent comparable data on household structure and the data in the figure are drawn from a range of dates (from 2019 in New Zealand to 2018 for some European countries).

These data should thus be seen as indicative only. They do nonetheless reinforce the high rate of sole parenthood in New Zealand (with sole parents in New Zealand accounting for the largest proportion of families with children). New Zealand was followed by the United States, Canada, and Australia.



#### Figure 6 Sole parents as a proportion of families with children 2018

Source: OECD

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

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

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

International research suggests that the private costs of divorce and unmarried childbearing include increased risks of poverty, mental illness, infant mortality, physical illness, juvenile delinquency and adult criminality, sexual abuse and other forms of family violence, economic hardship, substance abuse, and educational failure (Scafidi, 2008).

*In 2018 sole parents with dependent children made up 30 percent of families with children.* 

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

An important caveat to the approach taken below is that there is a lack of empirical evidence in New Zealand on the degree to which family breakdown and decreasing marriage rates has a causal effect on poverty (as opposed to simply being correlated). Selection effects may mean, for example, the poverty associated with family breakdown and decreasing marriage rates is caused by traits or circumstances that also lead to divorce and non-marital child rearing. Overseas research on the connection between family fragmentation and poverty among families with children has, nonetheless, illustrated that marriage could help to reduce poverty because there are two potential wage earners in the home and because of changes in preferences and behaviours that may

International research suggests that the private costs of divorce and unmarried childbearing include increased risks of poverty, mental illness, infant mortality, physical illness, juvenile delinquency and adult criminality, sexual abuse and other forms of family violence, economic hardship, substance abuse, and educational failure.

occur when two people marry (Scafidi, 2008). Marriage can also allow people to share resources and allow fixed household costs to be spread over a larger number of people (providing economies of scale).

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

#### 3.1 Poor family outcomes

This report emphasises the relationship between family fragmentation and poverty among families with children.

In the year ended June 2021, 13.6 percent of New Zealand children (156,700) lived in households with less than 50 percent of the median equivalised disposable household income before deducting housing costs. This was a decrease Independent research on poverty in New Zealand has consistently illustrated that sole parents are relatively likely to lie toward the lower end of the income distribution.

over three years from 16.5 percent (183,400) in the year ended June 2018.

Also, in the year ended June 2021, 16.3 percent of children (187,300) lived in households with after-housing-costs equivalised disposable income that was less than 50 percent of the median after-housing-costs income in the baseline year. This was down from 22.8 percent of children (253,800) three years earlier.

Stats NZ also reported on material hardship, which indicated the number of households going without six or more of the 17 basic needs most people would regard as essentials. Over the last three years, material hardship has trended downwards. In the year ended June 2021, 11.0 percent of children (125,700) experienced material hardship.

In the last two years material hardship and low-income rates for both Māori and Pacific children were relatively unchanged, though there was a decrease for both groups in the percentage of children who lived in households with less than 50 percent of the baseline year's median after-housing-costs income. In the year ended June 2021, over 1 in 6 Māori children (53,600 or 18.1 percent) lived in households with less than 50 percent of the median income before housing costs, meanwhile 1 in 5 (60,300 or 20.2 percent) experienced material hardship. The rates for these measures were 17.2 percent (25,000) and 24.0 percent (34,000), respectively for Pacific children. For all New Zealand children, these rates were 13.6 percent and 11.0 percent, respectively.

Independent research on poverty in New Zealand has consistently illustrated that sole parents are relatively likely to lie toward the lower end of the income distribution (Perry, 2004; Stephens, 1999; Stephens and Waldegrave, 2001; Waldegrave et al, 2003; St John and Craig, 2004). The incidence of poverty among families with children by family type in 2020 in New Zealand is shown in Table 3. For children living in sole parent families the rate of poverty is five times as high as that for children in couple households (Fletcher and Dwyer, 2008).

The recent Government Budget increases in April 2022 are expected to impact the after-housing costs fixed-line measure, which is expected to provide a reduction of between 19,000 and 33,000 children (out of a total of 187,000). The relatively small effect despite the size of the increases in core benefit rates is an indication of the fact that the Government's package of minimum-income assistance remains low in New Zealand, and for many families it is insufficient to lift them out of poverty.

	Number of Children	Percent
All Children	187,300	16.3
Couple Household	90,300	9
Sole Parent Household	71,600	49
Other Household (Multi-Adult etc)	26,400	18

#### Table 3 Poverty among families with children

Source: NZ Stats (June 2021)

Note: Includes housing costs, poverty threshold based on 50 percent of equivalised median disposable income.

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

- If the rate of poverty of sole parents was to drop to that of married households (by around 82 percent), then around 58,500 children would be moved out of poverty (representing a 31 percent fall in total poverty among families with children).
- If the 40 percent gap in the rate of poverty between sole and partnered parents was to fall by 60 percent (leading to a rate of poverty for sole parents of 25 percent), then around 36,500 children would be moved out of poverty and the total poverty rate for families with children would fall by 19 percent.
- If all poverty among sole parent households was to drop by 60 percent, the poverty rate of sole parents would fall to 20 percent, around 43,000 children would be moved out of poverty and the total rate of poverty among families with children would fall by 23 percent.

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

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

• The distribution of family incomes by age of youngest child indicates that families with younger children are more likely to have lower incomes and that generally the

The poverty rate for children in families where there is no fulltime worker is six times higher than for those where at least one adult is in full-time work. level of family income rises with the age of youngest child.<sup>Note 3</sup> (After 1 July 2018 the government introduced the Best Start grant, which all new-born babies get for one year regardless of parental income. This was an attempt to work on this issue.)

Poverty rates are also significantly higher among Māori and Pacifika children than Pakeha children.

• There is also some correlation between family size and income, with larger families being less likely to have higher incomes than smaller families.

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

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

	Costs to the Child	Consequences for Society and for Social Spending
lmpact of Poverty in Childhood	<ul> <li>Material and social hardship</li> <li>Higher incidence of mental and physical illness</li> <li>Higher incidence of accidental injury, physical abuse and neglect</li> <li>Knock-on effect on development during childhood</li> <li>Social exclusion – reduced aspirations, loss of confidence</li> </ul>	<ul> <li>Extra spending on preventable child problems – e.g., health, remedial education</li> <li>Extra services, problems in school, spending on protective care, anti- social behaviour, childbearing when young and unsupported</li> </ul>
Future Consequences	<ul> <li>Greater chance of material hardship in adulthood, linked to continuing disadvantage</li> <li>Poorer health in adulthood, psychological wellbeing, ability to achieve life goals</li> <li>Consequences for own children</li> </ul>	<ul> <li>Extra spending on long-term consequences such as poor health, crime</li> <li>Reduced economic capacity resulting from failure of individuals to reach potential</li> <li>Further spending on poverty caused by intergenerational cycle of disadvantage</li> </ul>

#### Source: Fletcher and Dwyer, 2008

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

• Health effects such as a greater risk of dying during childhood, developmental delay and illness, poor nutrition, higher rates of physical abuse and neglect of children.

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

• Impacts on children's cognitive development and subsequent educational outcomes, and consequent employment and earnings outcomes in adulthood (Fletcher and Dwyer, 2008).

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

These poor outcomes for sole parents can partly be explained by the high proportion of

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

## 4. The role of incentives and welfare

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

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

There is a lack of robust New Zealand research on the relationship between government policy and family breakdown and decreasing marriage rates.

### 4.1 Family form and benefit receipt

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

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

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

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

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

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

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

## 4.2 Marriage penalties

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

 Marriage penalties occur when two parents (or spouses) have a higher total income (net of income transfers and living costs) when separated than when a partnered unit.

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

• Poverty traps occur when there is a range of hours of work where, due to taxation and the clawback of assistance, there are few or no financial incentives for people to enter into or remain in work, or to increase their hours of work or wage rates.

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

Benefit duration has an important influence on the rate and incidence of jobless families, poverty, and low living standards.

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

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

- Fitzgerald et al (2008): found that between 2005 and 2007 New Zealand's Working for Families reforms had little effect on partnering decisions, but that these decisions can be expected to change less quickly than labour supply ones and larger impacts on partnering may be expected over a longer time horizon.
- Anderberg (2007): found that in the United Kingdom a £100 per-week welfare benefit partnership penalty reduces the probability of a woman having a partner by seven percentage points.
- Lopez-Laborda and Zarate-Marco (2004): Concluded that the Spanish tax system had an effect on the decision to marry, although the effect is highly reduced in comparison with the other variables such as unemployment and education levels.
- Eissa and Hoynes (2004): Found that there was a relationship between tax/transfer penalties and marriage rates, but that it was quite modest (a reduction in the marriage income tax penalty of \$1,000 would raise the probability of marriage by 0.4 percent).
- Ellwood (2000): Found that there was an increase in cohabitation attributable to the fact that cohabiting couples faced a marriage penalty under the Earned Income Tax Credit.

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

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

To illustrate the incidence and depth of marriage penalties and poverty traps in the previous report, the NZIER developed a model that calculated the interaction of these family income

assistance programmes for a range of family types, and which contained the programmes listed above (Nolan, 2008). This research produced the first estimates for marriage penalties in New Zealand that contained changes in Child Support liability and eligibility and in accommodation costs from changing family status. Some results from this modelling were:

- Marriage penalties are higher for families with children than for families without, which reflects the greater provision of targeted assistance to families with children.
- Poverty traps are higher for families without children at lower income levels, but higher for families with children at higher income levels. This reflects the fact that for families with children the clawback of assistance takes place at higher incomes and/or at lower rates of abatement (as illustrated by the higher abatement of the Jobseeker Support and Emergency Benefit at lower incomes than the Supported Living Payment), which means that abatement takes place over a longer income range. This result also reflects the greater levels of targeted assistance provided to families with children.
- For families with and without children, at the range of incomes shown, marriage penalties are higher the greater the disparity between the primary and secondary income earners' incomes. This reflects the situation where one person has to largely forgo an unabated independent income, the other person faces additional

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

clawback of assistance, and there is little increase in the household gross income.

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

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

In November, the Government announced increases to the Family Tax Credit rates and also raised the Best Start payment (which was introduced in 2018). The cost of these increases was partially offset by raising the abatement rate for FTC (and IWTC). These changes highlighted the Government's view that Working for Families should be generous at lower family incomes but relatively more tightly targeted. Thus, the Government plans to use the tax credits to support low-income households with at least one paid worker.

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

The following section of this report discusses the social costs of family breakdown and decreasing marriage rates in New Zealand. Family breakdown and decreasing marriage rates not only increase fiscal costs to the taxpayer through increasing take-up of government programmes

(e.g., the number of children and adults eligible for and in need of income assistance), but also influence the social problems faced by communities – such as crime, family violence, substance abuse, and teen pregnancy (Scafidi, 2008). Both of these categories of taxpayer cost are discussed in this report.

#### 5.1 Government expenditure

This section of the report discusses the fiscal cost to taxpayers of family breakdown and decreasing marriage rates. The approach taken to estimating these costs was as follows. First, line items affected by family breakdown and decreasing marriage rates were selected from the May 2022 Budget (for the 2021-22 year) for a range of different Votes. A conservative approach to selecting line items was taken (some potentially relevant line items, e.g., the administrative cost of the Ministry of Social Development, were omitted). These Votes and their line items were:

- Social Development: Jobseeker Support and Emergency Benefit Supported living payment, Sole parent support, Accommodation Assistance, Income-Related Rents, Disability Assistance, Best start, Orphan's/Unsupported, Child's Benefit, Hardship Assistance, Paid Parental Leave, Child Care Assistance, Wage Subsidy Scheme, Other Benefits.
- Working for Families Revenue: Supported Living Payments, Family Tax Credit, Minimum Family Tax Credit, Child Tax Credit, In-Work Tax Credit.
- Health: Departmental outputs, Purchasing of health services, National disability support services, Other non-departmental outputs, Health payments to ACC, National health response to COVID-195, Other expenses (Counties-Manukau DHB, South Canterbury DHB, Otago DHB, Southland DHB, Nelson-Marlborough DHB, West Coast DHB, Canterbury DHB, Hutt DHB, Capital and Coast DHB, Wairarapa DHB, Hawkes Bay DHB, Whanganui DHB, MidCentral DHB, Bay of Plenty DHB, Tairawhiti DHB, Taranaki DHB, Auckland DHB, Waikato DHB, Lakes DHB, Northland DHB, Waitemata DHB). (From 2022, individual DHBs will be replaced by Health New Zealand and the Māori Health Authority and payments to DHBs will be replaced by payments to these new entities.)
- Justice: Crime Prevention and Community Safety, Administration of Legal Services Agency, Legal Aid, Support and Assistance provided by Victim Support to Victims of Crime, Crime Prevention and Community Safety Programmes, Sentencing Council, Legal Services Agency, Independent Police Conduct Authority, Sentencing Council.
- Corrections: Community-Based Sentences and Orders, Custodial Services, Custody of Remand Prisoners, Escort and Custodial Supervision, Rehabilitative Programmes and Reintegrative Services, Prisoner Employment, Services to New Zealand Parole Board, Department of Corrections - Capital Expenditure.
- Police: Police Primary Response Management, General Crime Prevention Services, Specific Crime Prevention Services and Maintenance of Public Order, Investigations, Case Resolution and Support to Judicial Process, New Zealand Police - Capital Expenditure.
- Housing: Housing subsidies, Community Services (from 2016 onwards, community services have been reclassified from non-departmental expenses in social security and welfare expenses and employment initiatives in economic expenses.)

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

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

The proportions of the cost associated with each line item due to poverty were then adjusted for the relationship between poverty and family break-down. Given the lack of relevant empirical research in New Zealand this adjustment was based on an assumption that family breakdown and decreasing marriage rates could explain 60 percent of the gap in poverty between sole and partnered parents. Based on this assumption the rate of poverty among families with children was assumed to fall by between 17.5 and 22.5 percent *(see discussion on page 22).* 

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

Assumptions for social development and revenue expenditures were generally based on the proportion of expenditure on the particular benefit that was received by families with dependent children (MSD, 2021) or where the payment was clearly related to family breakdown. In the cases of the Family Tax Credit and the work-based In-Work Tax Credit (and Child Tax Credit) assumptions were revised to reflect the spill-over of this assistance to non-poor households.<sup>Note 4</sup>

Note 4: The benefits and their assumed expenditure on poverty alleviation among families with dependent children were: Jobseeker Support and Emergency Benefit Supported living payment, 10 percent; Sole parent support, 100 percent; Accommodation Assistance, 30 percent; Income-Related Rents, 30 percent; Winter Energy, 30 percent; Disability Assistance, 10 percent; Best start, 100 percent; Orphan's/Unsupported, 100 percent, Child's Benefit, 100 percent; Hardship Assistance, 40 percent; Paid Parental Leave, 30 percent; Childcare Assistance, 100 percent; Wage Subsidy Scheme, 10 percent; Other benefits, 40 percent, Supported Living Payments, 100 percent; Family Tax Credit, 60 percent; Minimum Family Tax Credit, 100 percent; ; In-Work Tax Credit (and Child Tax Credit), 25 percent.

These are conservative assumptions that are likely to understate the taxpayer cost of family breakdown and decreasing marriage rates.

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

Again, given the lack of relevant empirical research in New

Zealand, poverty was assumed to account for 20 percent of expenditure in the justice area based on research published by the National Poverty Center at the University of Michigan (Holzer et al, 2007).

As this assumed relationship of 20 percent was seen by the authors of this study as conservative, its use in this report is likely to understate the effect of family breakdown and decreasing marriage rates.

Estimates of the health costs of family breakdown and decreasing marriage rates were based on New Zealand research on child mortality, which found that families with the lowest third of incomes were overrepresented in child mortality rates (Shaw et al, 2005).

The assumption of 6 percent health costs was based on the result of multiplying two estimates:

- The percentage of health expenditure on individuals aged 0 to 64 (58 percent) (Ministry of Health, 2016).
- The difference between the rate of child mortality for low-income families and the rate that would occur if mortality was evenly distributed among income groups (around 10 percent).

As National Child Health Services are clearly targeted to children an assumption of 10 percent was used for this expenditure item. This approach is likely to understate the full cost of family breakdown and decreasing marriage rates on health outcomes, as it does not include costs in terms of lost quantity or quality of life (over and above the effect of poverty on medical expenditures).

These latter costs are likely to be significant, with the National Poverty Center estimating the loss of health capital due to poverty at 1.1 percent of GDP in the USA (in contrast to poverty leading to additional direct expenditures on health equivalent to 0.2 percent of GDP) (Holzer et al, 2007).

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

Based on the assumptions employed, the fiscal cost to the taxpayer of family breakdown and decreasing marriage rates has been estimated at around \$2 billion (around \$520 per taxpayer) in 2020-2021, even before we consider the potential for family breakdown and decreasing marriage rates to lead to foregone tax revenue.

This is considerably up from 2008-9 when the fiscal cost was just \$1 billion or \$300 per taxpayer. An increase of double in the last 12 years.

#### Table 5 Fiscal cost to the taxpayer (2020-21)

Category	Scenario 1 (\$millions)	Scenario 2 (\$millions)	Scenario 3 (\$millions)
Social Development	761	869	978
Working for Families Tax Credit	566	647	728
Health	205	234	264
Justice	22	26	29
Corrections	57	66	74
Police	73	83	94
Housing	61	70	79
TOTAL	1,745	1,995	2,246

Note: Scenario 2 is based on an assumed relationship between family breakdown and family poverty of 20 percent, and scenarios 1 and 3 are based on a range around this assumption of 5 percent (17.5 percent and 22.5 percent).

If it is assumed that the assumptions employed remain unchanged since the last report, the aggregate fiscal cost to the New Zealand taxpayer over the last twelve years is in the order of \$21 billion (based on a 20 percent relationship between family breakdown and family poverty).

These estimates of the annual cost to New Zealand taxpayers can be compared to estimates of £51 billion a year (£1,584 per taxpayer) in the United Kingdom (Ashcroft, 2018). This has increased from £15 billion in 2000. In the United States a ground-breaking report in 2008 estimated the cost at \$112 billion a year (US\$811 per taxpayer) (Scafidi, 2008). The cost today would be more like \$225 billion a year.<sup>Note 5</sup>

The aggregate fiscal cost to the New Zealand taxpayer over the last twelve years is in the order of \$21 billion.

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

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

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

Nevertheless, the largest areas of cost related to income transfers (both through the social welfare

Note 5. The costs per taxpayers are based on an estimated weekly cost for the average taxpayer in the United Kingdom of £20 per week and an assumed 150 million taxpayers in the United States.

and taxation systems) followed by costs to the health and justice systems. The magnitude of these costs suggests that government programmes addressing family breakdown and decreasing marriage rates could provide significant savings for taxpayers.

Income transfers through the social welfare and tax systems (including the Working for Families Tax Credits) are discussed in greater detail as they are the two largest areas of taxpayer cost. The main income transfers are shown in Table 6. This table shows expenditure and numbers of recipients by programme for 2021 and the figures are gross of personal income taxes. (To provide context to this discussion, Table 6 also contains figures for tax revenue and New Zealand Superannuation although these data were not contained in the modelling for Table 5.)

	Recipients	\$ Billion
Total Tax Revenue		97.4
Total Social Assistance		35.4
Key Areas of Social Assistance:		
New Zealand Superannuation	825,000	16.6
Accommodation Supplement and Income-Related Rents	364,000	3.5
Jobseeker Support and Emergency Benefit	211,000	3.2
Working for Families Tax Credits	371,300*	2.7
Supported Living Payment	97,000	1.8
Sole Parent Support	66,000	1.5

#### Table 6 Key areas of family income assistance (2021)

Sources: Budget Economic and Fiscal Update (2022), Tables 5.1 and 5.2

\* Figure for all WFF tax credits.

Overall, the total numbers of people in receipt of a main benefit (particularly Jobseekers Support and Income Related Benefits) have risen sharply over the last few years. The expenditure for Working for Families and Working for Families Tax Credits have increased and are most widely received incometested transfer payment in the income assistance system (New Zealand superannuation is not income-tested) and account for nearly twice the Sole Parent Support benefit.

Since the beginning of the century, the two major changes to the income tax and family income assistance systems in New Zealand have been the Working for Families reforms and fiscal drag in the personal income tax scale (where wage increases lead to people slipping into higher tax brackets) (NZIER, 2008). Working for Families increased the expenditure on tax credits to households from \$2.2 billion in 2007 to \$2.7 billion in 2021, with 371,300 families getting credits during the year ending December 2021.

The Working for Families reforms have been the flagship of the Labour-led Government's social policy agenda since 1999. These reforms have aimed to make work pay, particularly for low-wage parents (including second earners in families) as well as recipients of main welfare benefits.

They have also aimed to reduce family poverty. Yet certain features of these reforms have raised concerns. These concerns include:

- Exclusion of recipients of main benefits from some assistance.
- Complexity and administrative cost.
- Financial discouragement to work facing second earners in many families.
- Extension of assistance to middle-to-high income families.

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

In the past there has been increased financial discouragement to work facing second earners given the increasing proportion of expenditure going to partnered families.

However, in the last few years, as basic living costs have increased significantly in 2022, this discouragement has

given way to the necessity of additional income to meet the basic needs of a family.

#### 5.2 Foregone earnings and GDP

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

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

In our previous report, NZIER replicated the model used in Bryant et al (2004) and estimated that, based on 2008 data, a one percent increase in the labour market participation of women aged 15 to 44 could be seen as equivalent to a 0.36 percent one-off increase in the level of GDP. If we assume that this increase in GDP from foregone earnings was to face an average tax rate of 17.5 percent (the current 2022 secondary tax rate that applies to beneficiaries' non-benefit income), then these foregone earnings imply foregone personal income tax revenue of \$157.5 million.

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

## 6. Recommendations

The discussion in this report has implications for a range of policy areas. International experience supports the use of a range of programmes and services to reduce unwed pregnancy among teen mothers and to help prepare couples for and support them during marriage.

Increased empirical research on the relationship between government policy and family form in New Zealand would also be fruitful.

The further development of such programmes and services

could provide a fruitful direction for government policy in New Zealand. Increased empirical research on the relationship between government policy and family form in New Zealand would also be fruitful.

However, action needs to be directed towards supporting initiatives from local communities and iwi. By directing support for family form toward these initiatives, local needs could be met earlier and more efficiently.

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

This empirical research on the family could include a review of the interaction of tax-benefit programmes and incentives for marriage and work, and the consequent effect of these incentives on decisions for partnering or misreporting partnership status.

This review could also include an assessment of the use of tax-transfer programmes to support married families in overseas jurisdictions.

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

Whereas this report has looked at the fiscal cost, the real cost lies in the reduction in the mental wellbeing due to increased pressures on our youth due to family breakdown. A divided family unit causes isolation, learning and developmental delays, and identity confusion in the children.

The real cost lies in the reduction in the mental wellbeing due to increased pressures on our youth due to family breakdown.

A recent quote we came across is quite profound: 'A nation dies when its people no longer recognise the importance of family!' (Author unknown).

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