



## Comments:

Employment incentives: Labour market effects of changes to tax credits and social assistance

# This commentary will:

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- Provide a context for Dalgety *et al.* results
- Focus on incentives ( Note: WfF was also designed to improve income adequacy)
- Key arguments:
  - Improving incentives is most effective when poor incentives are the main problem
  - Improving incentives for some will have an impact on the incentives of others

# Understanding the incentives

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- There are (at least) three ways work “pays”:
  - *Financially* better off by working
  - Earnings high enough to make work attractive
  - Improve the marginal payment (i.e. minimise EMTRs).
- The detail varies but the broad pattern is the same for all working age benefits.

# Understanding the incentives

## Without a benefit system:



- Benefit systems flatten incentives. The policy decision is balancing:

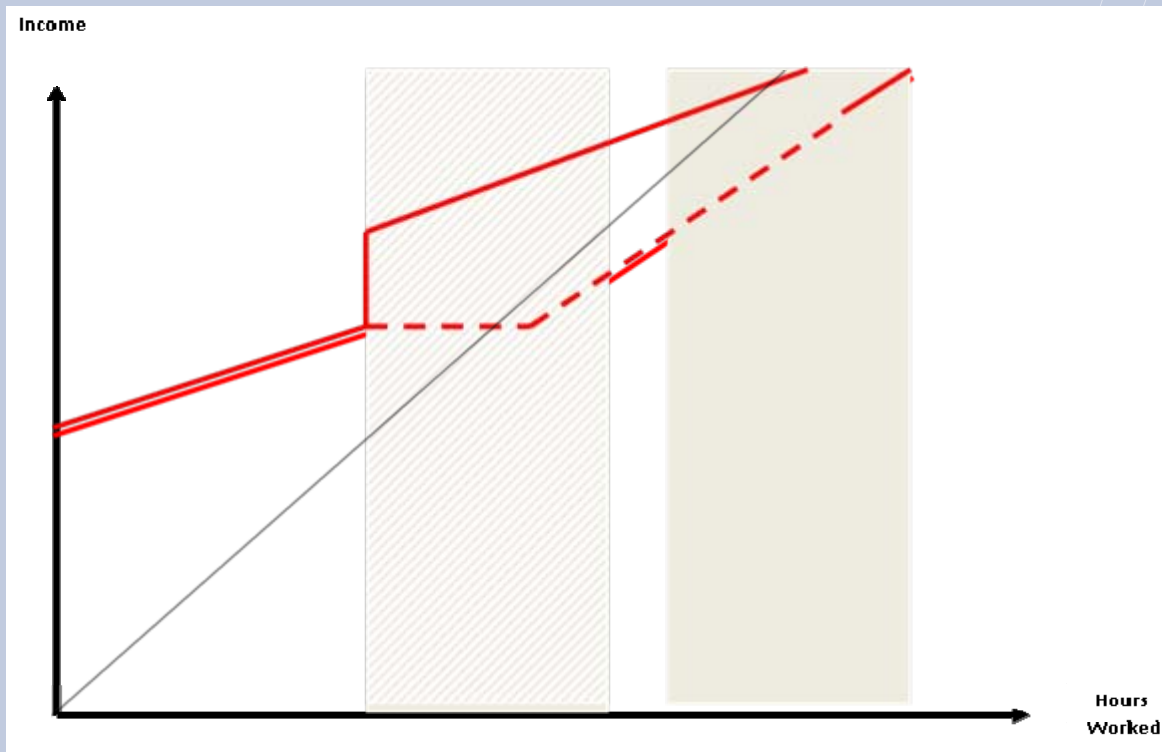
How **many** are dis-incentivised ?

v.

How **deep** is the dis-incentive?

# Understanding the incentives

## Before Working for Families:



### Incentive to work

- More than 20 to 25 hours

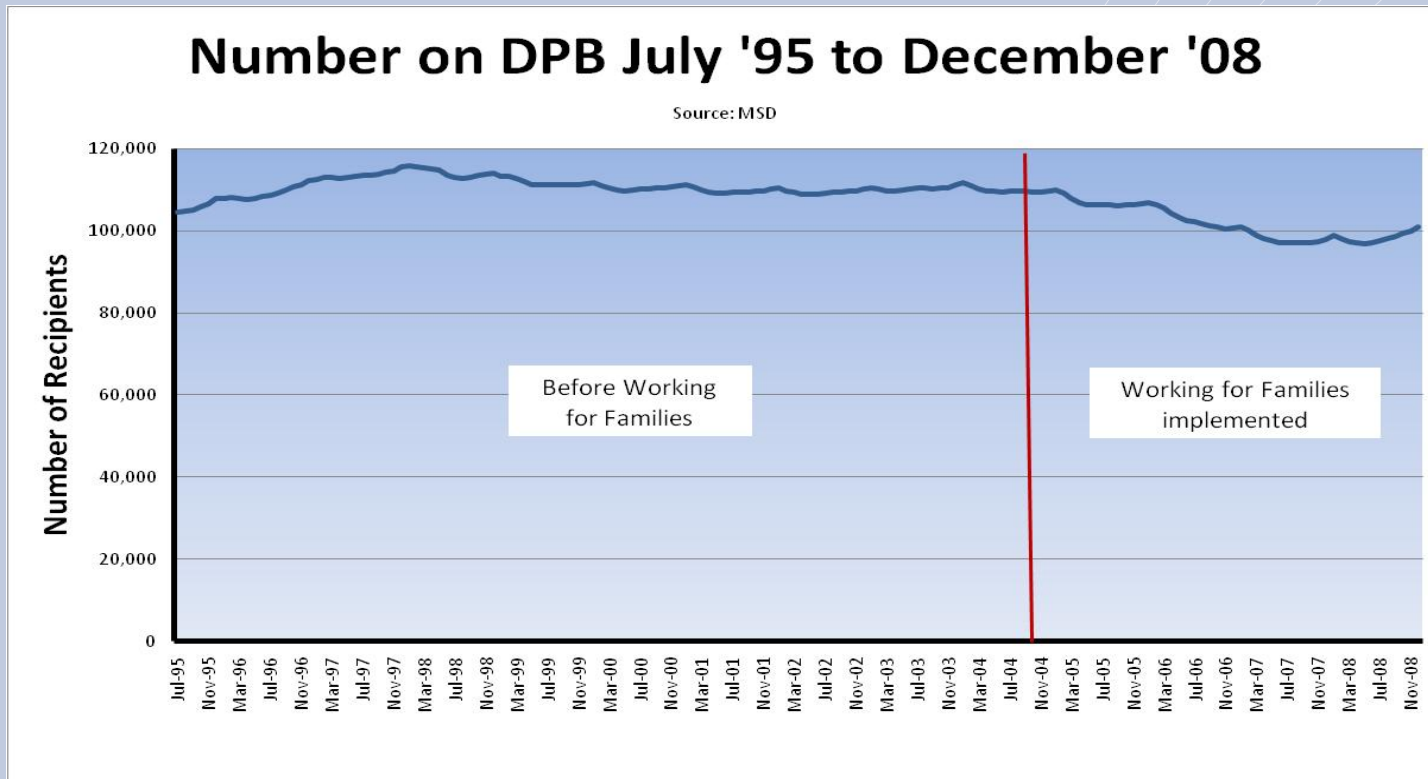
### Less incentive

- To look for higher paid

### Disincentive to work

- 20 to 25 hours with two earners

# Impact of Working for Families



**Dalgaty *et al* provides good evidence of some increase in labour market participation of single parents, but ...**

# Policy Questions

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- Have we reached the limit for using financial incentives to increase labour market participation?
  - Do other policy instruments (e.g. WINZ case managers) have the capacity to do more?
- How far were the benefits only possible in a benign labour market?
- What is the balance of costs and benefits?