THE EFFECT OF INCENTIVE RETURN-TO-WORK POLICIES ON SINGLE-PARENT FAMILIES:
A COMPARATIVE APPROACH

Samir Amine*, Pénayori Ouattara
University of Quebec; Center for Interuniversity Research and Analysis of Organizations,
Montréal, Canada

Abstract:
As part of their struggle against inequality and social exclusion, many countries are trying to reform their redistributive system and low-income support measures to encourage return to work, and reduce inactivity traps. The purpose of this article is to propose a reflection on the social and fiscal policies. The analysis focuses on three measures in three different countries: the Earned Income Tax Credit (EITC) in the United States, the Working Tax Credit (WTC) in the UK and the Active Solidarity Income (RSA) in France. The emphasis is placed on the effects of such policies on the situation of single parents, in particular as part of their transition from welfare (social assistance) to the labor market.

INTRODUCTION

For several years, the debate on the equity-efficiency dilemma was strongly covered in the theoretical and empirical literature. Nevertheless, socio-economic changes, observed in the labor market and exacerbated by the 2008 crisis, have helped to put this dilemma at the heart of political debate in most of the developed countries (Amine, 2011). In their fight against inequalities and social exclusion, such attempts have been made to reform their redistributive system and more effectively support mechanisms for low-income (Amine, 2014).

In this context, Zajdela (2009) poses the problem of inadequate social and fiscal measures with the specific realities of the people and highlights the importance of conducting a diagnosis prior to implementation of the OECD recommendations (2006). As modulated by the OECD, these are the courses of action that should adapt to the realities of each country. Moreover, these policies implemented in accordance with these recommendations are not targeted and usually address the divergent needs of the public.

Based on the notion of rationality of individuals, these incentives to return to work emphasize the fact of joining a labor market that need not necessarily produce quality jobs (Zajdela, 2009). In order to make these measures more suited to the needs of persons covered, it would be wise to prioritize policies designed in terms of labor demand and add training policies of labor (Kim, 2011; Zajdela, 2009). In other words, the return to work should not be the only issue to take into consideration, as the socio-fiscal measures should also be associated with the nature of the job (Dubet & Veretout, 2001; Dufour et al., 2003).

The purpose of this paper is to propose a reflection on the return-to-work policies. This reflection is based on two elements. On one hand, the analysis focuses on three measures in three different countries. It is about the Earned Income Tax Credit (EITC) in the United States, the Working Tax Credit (WTC) in the UK and the Active Solidarity Income (RSA) in France. While these measures have common inspirations, based on the principle of negative tax, their comparison allows for better reporting of institutional characteristics of each economy. On the other hand, the focus is on

Key words: single-parent, return to work, labor market participation.

* E-mail: samir.amine@uqo.ca
the effects of such policies on the situation of single parents in particular, as part of their transition from welfare to the workforce.

**CONTEXT AND LITERATURE REVIEW**

Unemployment rate has grown considerably in Europe since the end of the post-war economic boom and it also seems to have settled permanently in North America since the beginning of the financial crisis (particularly the US). In this context, European welfare states are bogged down, sealed by excessive debt levels, with budget deficits well above those in the Stability Pact and extremely low growth rates. In addition, social and tax systems are piling on top of each other (since 1945) making fiscal policy (and redistribution policy) properly illegible and ineffective; seeking in some cases to make regressive (Landais et al., 2011) at a time when more inequality will stop and even tend to increase significantly (Amine et al., 2012). Moreover, according to the ILO and the World Bank, about 5.1 billion people, i.e. 75% of the world population is not covered by social security adapted, as 1.4 billion people still live on less than $ 1.25 per day (ILO, 2011). This does not seem to spare the developed countries. Indeed, in 2007, around 9.2% of Canadians, or about 2.95 million people, were below the low-income threshold.

However, it is important to note that despite this growing inequality, the weight of social benefits in public spending has not necessarily declined in most of the OECD countries. For example, since 1980 the share of the budget France awards within the social system has remained the same (around 33% of public expenditure) (Amine & Dos Santos, 2012). The United States even increased their spending on the labor market policies in 2008 and 2009 (0.2% of GDP instead of 0.1% for all previous years). The UK and Canada have also made increases at the same expenses from 2008 (OECD, 2013).

In general, persistent unemployment and budget constraints imposed by the repayment of public debt, largely explain the OECD recommendations directed towards refoundation of social and fiscal measures (Merrien, 2007). These have been the subject of several evaluations and some of them shall be presented in the following paragraph.

In a study on Canada, New Zealand and the United States, Cook (2012) focuses on health conditions of social assistance recipients and concludes that the transition to the labor market is a dynamic process that focuses on the socio-economic life and neglects the search for identity of a recipient. In addition, he mentions that single parents as welfare recipients remain in poverty despite obtaining a job. In this sense, Cook (2012) explains that several factors impede the success of labor subsidy programs whose participants are faced with the harsh realities of work-family balance and lack of medical coverage. Sen (2003) also calls for a shift in policy debates to adopt programs that integrate recipients as craftsmen development and involve them in decisions that are supposed to improve their living conditions.

In the same vein, Breitkreuz and Williamson (2012) are attempting to understand how the experiences of single parents with young children are aligned with political and ideological concepts. Indeed, based on the experience of Canada, they question the self-sufficiency which is the central notion in recent social policy reforms aimed at reintegrating welfare recipients into the labor market. From a longitudinal research, they manage the results indicating that the objectives of policies do not necessarily reflect the reality in terms of poverty and precariousness, of program participants. Within the same Canadian context, the study of Good-Gingrich (2010) focuses on parent families benefiting from Toronto “Ontario Works” program that administers social assistance in Ontario. The results obtained by Good-Gingrich (2010) confirm the discrepancy between the mode of administration of the programs and the precarious situation suffered by most participants.

In another economic context, Dubet and Vérétout (2001) examine in France the reasons explaining the decisions of welfare recipients in their job search. Their questioning concludes that the beneficiaries of minimum income (RMI) would proceed to possible trade-offs between the expected employment income based on their qualifications as to refrain from seeking employment. Providers of social assistance, who have the appropriate qualifications to meet the labor market requirements and take a well-paid job, leave the system. Instead, the low-skilled or unskilled opt for the services of social assistance that are higher than the expected income jobs (Brouillette & Lacroix, 2011). Furthermore, in a study on the single-parent allowance in France, Curraize and Périer (2009) mention that the personal characteristics of recipients can influence decisions to return, keep or not join the labor market. The designs and subsequent actions of beneficiaries of social assistance differ according to their uncertainties facing the labor market.
Regarding the US context, Kim (2011) analyzes the effects of two programs in the United States and for people receiving emergency assistance: Human Capital Development (HCD) and Labor Force Attachment (LFA). The study uses a combination of the official data on the unemployed and the emergency aid which is the main source of income. Based on these data, Kim (2011) extracted longitudinal observations from 1997 to 2001 on single-parent families (especially women) who participated in the HCD and the LFA. The results indicate that participants who received both programs are more likely to get jobs. Similarly and based on the March CPS data collected from 1978 to 1999, Grogger (2003) concentrates on single-parent families recipients of EITC, of which 93% are women. During the observation period, it appears that the participation of families reached a record rate of 33% in the 90s and then fell to 15% in 1999.

Inspired by the French experience and in order to reduce poverty, the Québec government introduced the “prime au travail” (PT). This is a refundable tax credit for low income. The objectives behind this measure are twofold: insertion and retention in the labor market. The allocation calculation is determined in relation to the income received from a job and it also takes into account the family situation. Fortin et al. (2011) believe that the adoption of this PT should not necessarily be analyzed in terms of purely economic benefits since the early childhood program in Quebec helped to reconcile family and work, and has achieved positive results at the provincial level and federally.

Starting from different foreign experiences, Godbout and Arseneau (2005) reach the fact that the PT can be effective for engaging in the labor market of single-parent families with a child as long as the person opts to work full-time at minimum wage. In this line, Cahuc et al. (2008) consider that poverty results from the fact that people are unable to exercise full-time employment throughout the year.

On the same measure, Lafond-Bélanger (2007) analyzes the potential effects of PT on women in couples by structural ex-ante approach. The data used in the analysis come from the Survey of Labour Dynamics and Income 2002. From an econometric discrete choice model and simulations, Lafond-Bélanger (2007) concludes that the PT does not reach women beneficiaries in couples. When compared to an ordinary situation where work is not subsidized, PT encourages inactivity in women in couple, resulting in a decline in their number in the labour market. In the same vein, Parise (2007) adopts a structural approach based on a micro-simulation model to predict the effects that the introduction of the PT could generate as labor supply and hours worked by women alone and single parent families. The results show that the reactions of single women and those of single parent families result in the improvement in the supply of labor by 0.6%. The categories of part-time jobs make up three quarters of the choice of new access to the labor market. This positive effect of PT on participation of single parents in the labor market was also emphasized by Brouillette and Fortin (2008) as part of their experimental study.

THE IMPACT ON SINGLE PARENTS

Working Tax Credit

The UK has engaged very early in the inspired action of the NIT and has repeatedly performed revision of its tax-benefit system; Family Credit and Working Family Tax Credit (WFTC) and Working Tax Credit (WTC) since 2003. Furthermore, new provisions are undertaken in order to establish the “Universal Credit”. In order to qualify for benefits, single parents with one child or more must work for at least 16 hours per week.

According to the official data, the implementation of the WTC in 2003 seems to have had the desired effect from 2006, as the single-parent employment rate gradually increased from 49.9% in 2005 to 50.2% in 2006. Such upward trend was maintained up to 52.9% in 2010.

Furthermore, in fiscal year 2011-2012, we estimate that 366 000 single parents with jobs, benefited from 30 hours component of the tax credit. They represent 34.76% of recipient families of the component 30 hours of the WTC. Nevertheless, the data give no indication of the job categories, temporary or permanent, occupied by these families.

It is worth noting that majority of evaluations of socio-tax schemes in the UK are using the WFTC data. The latter seems to have increased the participation rate of single parents in the labor market by 47% in 1996 to 55% in 2002 (Immervoll & Pearson, 2009; OECD, 2014; Mikol & Remy, 2010). However, some reproach the WTC, predominantly its administration, as it appears to be too complex, cumbersome and unreadable. Such criticism is the main source of change that the WTC “Universal Credit” is undergoing (OECD, 2014).
Active Solidarity Income

In order to fight against “poverty to work” and encourage return to work, the French government has been implementing a new mechanism called the active solidarity income (RSA) since June 01, 2009. This new measure does not replace the “employment premium” (PPE), but both devices are built with each other. The RSA is a measurement with two components: the RSA base and the RSA activity. The RSA base provides a lump sum to the unemployed and people whose income is below the standard amount. The RSA activity is a financial supplement for workers whose incomes are above the RSA and meet the relevant eligibility criteria for their situations. Périvier (2010) considers that this device gives a new way to the French social policy by passing a design rooted on solidarity to merit a design where labor grant recipients have the requirement to fit in the labor market and remain there.

The data from the year 2013 indicate that 33% of single-parent families benefit from the RSA, of which 31% are women and 2% are men. In December 2010, single parents (specifically women) RSA beneficiaries stood out by their participation in the labor market; 40% of single parents with two children against less than 25% for those living in couple with the same number of children (Briard, 2012; Domingo, 2014). As for the number of working hours, the trend is 28 hours per week (Briard, 2012). The statements of the participants in the RSA suggest that part-time work is particularly involuntary and imposed by the employer. Similarly, the comparative study of Mikol and Remy (2010) reveals positive effects of RSA on labor market participation.

Based on the quantitative survey of Dares (direction of animation of research, studies and statistics) on RSA beneficiaries 2010-2011, Domingo (2014) determines the characteristics of jobs held by parent families RSA beneficiaries. Indeed, it shows that 55% of single women are permanently employed and the proportion of men in this category would be lower.

Relying on the same data, Dares, Briard and Sauictory (2012) could not determine the extent of the RSA effects on the labour market and hours worked. In this perspective, Thibault (2014) explains that the RSA encourage return to work, mainly part-time, single-parent families, and more specifically, those with dependent children.

However, many critics argue that the two programs (RSA and PPE) cohabit, but do nothing to reconcile their means to achieve the common goal among those targeted. In addition, RSA is not implied, levied on a monthly basis, it is declarative and its complex eligibility requirements may make it incomprehensible to potential beneficiaries, hence indicating the weakness of its application rate, with only 32% of those who would claim the right to RSA. In addition, the RSA in its current structure excludes fringe of workers aged below 25 and increases social exclusion and poverty observed for this category of workers.

RSA financing costs are also criticized and because of the growing weight they represent in departmental budgets. The assistance provided to low-income families through the RSA benefits would be more expensive than expected. Indeed, the expenditure in 2013 is more than € 4 billion of the projected amount, thereby raising the total budget to 10 billion.

Earned Income Tax Credit

The Internal Revenue Service (IRS), which administers the EITC, says the program has evolved significantly since its establishment. In fact, various reforms were introduced in 1986, 1990 and 1993, which has resulted in increased funding for the EITC and made it very generous, especially to families with two children or more (Bontout, 2000).

The 1993 reform, which in its structure becomes more favorable for families with two or more children, is considered by Mikol and Remy (2010) as the most ambitious US government since benefits nearly doubled.

In this sense, for single parents without a job, the benefits of the EITC make attractive the course of employment and thus encourage integration into the labor market (Bontout, 2000). Indeed, Bontout (2000) mentions that during the period 1993-1996, the EITC provided the basis for an increase in the activity rate for single parents (especially women) raising in from 65.5% to 72.1%. During the period 1985-1996, single parents (specifically women) stood out for their massive comeback in the labor market, a movement that has generated rise in female participation in the labor market, setting their number from 51 to 61.9 million. Several studies in the 1990s contributed to these positive effects of the EITC on participation in the labor market for single-parent families. In a more recent study, Immervoll and Pearson (2009) have shown that about two-thirds of EITC recipients are single parents (Grogger, 2003).

By focusing on low-skilled workers, Chyi (2012) extracted the history of their use of social assistance and employment episodes from 1989 to 2000. It shows
that one hand employment has increased by about 30% since 1995, while the number of single-parent families targeted by the study (low-skilled women) receiving social assistance dropped by almost 70%, from 34% to 11% (Chyi, 2012).

In general, the EITC provides low-income families with real economic support. Indeed, in 2010, it fought against poverty with the US population by allowing 6.3 million people to improve their financial situation. It is worth noting that 59.5 billion US dollars was spent on the EITC services for the benefit of 27 million eligible families (Tach & Halpern-Meekin, 2014).

Hungerford and Thiess (2013) confirm this effectiveness based on the studies that summarize research on the EITC impact on participation of single-parents in the labor market (especially women). However, they emphasize the claim that EITC can be complex because of the supplementary forms to usual forms of tax return. In this sense, Tach and Halpern-Meekin (2014) are attempting to determine how EITC recipients include its structure to the point of use to make trade-offs based on working hours that would allow them to maximize their earnings. Given the participants’ responses to the survey conducted as part of their study, they concluded that recipients do not understand the structure of the EITC and do not differentiate between the portion of the EITC related to their working income and that related to the eligibility of children. The beneficiaries of the EITC translate this incomprehension of its structure by schemes to benefit from higher amounts of credits.

CONCLUSIONS

The EITC, commonly cited for its efficiency, takes place in a context characterized by relatively low minimum wages and limited access to other social benefits. By contrast, in France, there is a social safety net developed because of the existence of social benefits other than RSA (Mikol & Remy, 2010). The observation made by Mikol and Remy (2010) is that the minimum wage is high and there are several other benefits that could undermine the intended effects of the RSA introduction. Furthermore, the decentralized management of various French social measures and services does not promote real interaction to better achieve the targeted individuals (Martin, 2000).

Nevertheless, all incentive return-to-work policies cited herein are limited to financial aid. They do not integrate with the existing measures, called passive, to create a harmonized platform that could be more efficient with the individuals concerned. This failure is noted by Martin (2000): Recent studies conducted by the OECD also show that it is of vital importance to consider the interactions between active and passive policies in the labor market if we are to improve the effectiveness of active policies. In the present context where companies have much recourse to forms of employment (atypical, precarious, temporary...) that do not offer individuals the opportunity to lead a stable professional life, resort to social assistance benefits can appear safer (Duvoux, 2010). The inputs and outputs of the labor market on the basis of typical jobs discourage job search of some social assistance providers who actually yearn for permanent employability and wish to invest in programs that help to socially integrate through skilled and rewarding jobs (Duvoux, 2010).

In this context, the occupation of job does not put more systematically workers away from poverty. The phenomenon of “working poverty” is increasing and the data on a third of OECD countries indicate that 20% of single-parent families live in such a situation (OECD, 2009). Certainly, measures such as the WTC and EITC fail to encourage the reintegration into the labor market, but no information will give details about the quality and sustainability of jobs.

In general, the effect of these programs on participation in the labor market depends on several factors, including the ability of the economy and the labor market to reduce unemployment and provide sustainable, well-paid jobs. Hence, education and training remain the key elements for successful professional integration (Immervoll & Pearson, 2009).

REFERENCES


PODSTICAJNE MERE ZA POVRATAK SAMOHRANIH RODITELJA NA TRŽIŠTE RADA: UPOREDNI PRISTUP

Rezime:
Kao vid borbe protiv nejednakosti i socijalne isključenosti, mnoge zemlje pokušavaju da reformišu svoje sisteme redistribucije i uvedu stimulativne finansijske mere kako bi podstakli povratak na posao i smanjili neaktivnost stanovništva. Ovaj rad ima za cilj da pruži osvrt na postojeće društvene i fiskalne politike i programe. U istraživanju se prikazuju tri podsticajne mere preraspodele dohotka za siromašne u tri različite zemlje: sniženje poreza po zarađenom dohotku (EITC) u SAD-u; odbitak poreske obaveze za decu i zaposlene osobe (WTC) u Velikoj Britaniji; i odbitak poreza na dohodak slabije plaćenih osoba (RSA) u Francuskoj. U radu se stavlja naglasak na dejstvo takvih stimulativnih programa na finansijsku situaciju samohranih roditelja, naročito kao deo njihovog prelaska iz stanja socijalnog blagostanja (socijalne pomoći) na tržište rada.

Ključne reči:

samohrani roditelji, povratak na posao, učešće na tržištu rada.

Received: May 25, 2015.
Correction: Jun 20, 2015.
Accepted: July 21, 2015.


