

Lone parents and ‘mini-jobs’

Kate Bell, Mike Brewer and David Phillips

This report examines the potential of encouraging lone parents to work in jobs of fewer than 16 hours (‘mini-jobs’) rather than doing no paid work.

The aim of such a strategy is:

- to increase the employment rate of lone parents
- to tackle the high rates of relative poverty amongst this group, and
- to allow lone parents to make choices about how to combine work and family life on a more similar basis to women in couples with children.

The report:

- examines the existing literature on mini jobs, and on lone parents’ participation in this type of work
- analyses the current incentives for lone parents to work in mini jobs, and compares these to those for mothers in couples
- compares a number of policy changes to the tax and benefit system that may make taking up such work more attractive, and how these changes might affect lone parents’ behaviour in the labour market.

The Government has made substantial strides in increasing the lone parent employment rate and tackling child poverty, but progress on both targets is stalling. The researchers conclude that increasing the incentives for lone parents to work in mini jobs would not only remove the disparity between the incentives for lone parents and mothers in couples, but has the potential to make a substantial contribution towards these targets.



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Executive summary

This report examines the potential of encouraging lone parents to work in jobs of less than 16 hours, hereafter called ‘mini-jobs’, to increase the employment rate of lone parents, to tackle the high rates of relative poverty among this group and to allow lone parents to make choices about how to combine work and family life on a more similar basis to women in couples with children. The Government has recently suggested that increasing the numbers of lone parents in work will be key to meeting their child poverty targets (DWP, 2007d). The report examines the existing literature on mini-jobs and on lone parents’ participation in this type of work. The financial incentives for lone parents to work in jobs of these hours are currently very poor and the report suggests changes to improve these, modelling the impact of possible policy changes on the labour market behaviour of lone parents.

Examination of the existing literature and new analysis of the Labour Force Survey shows the following.

- Lone parents are much less likely to work in mini-jobs than mothers in couples. Looking at the distribution of hours worked in mini-jobs suggests that the tax and benefit system is having a significant impact on the hours worked by lone parents in jobs of this type and may be restricting their participation in such jobs.
- This is understandable when the current incentives to work in a mini-job are examined for lone parents. Lone parents who are earning more than £20 a week, the level of the earnings disregard within Income Support, but who are working for less than 16 hours, the minimum hours rule for claiming the Working Tax Credit, do not see any increase in their earnings for working additional hours.
- The fact that more mothers in couples, who have similar caring constraints but do not face these poor incentives, are working in mini-jobs may be seen as evidence that lone parents would value working in mini-jobs as a way of balancing labour market participation with family responsibilities.
- Qualitative evidence suggests that lone parents are keen to access jobs of shorter hours when returning to employment.
- There is some debate about whether mini-jobs can act as a ‘stepping stone’ into work of longer hours. Although there are good reasons for believing that, particularly for lone parents who have spent long periods out of work,

any experience of work is likely to improve future chances of being in work, quantitative research has so far been inconclusive.

- Previous reforms, including changes in the hours rules within Family Credit and the introduction of the Working Families' Tax Credit in the UK, or the Earned Income Tax Credit in the US, have shown the potential of changes in financial incentives to influence lone parents' participation in the labour market. Increased disregards for claimants of incapacity-related benefits have shown the potential of such policies to encourage moves into longer hours' employment.

The report then compares a number of policy changes that would remove the current distortion in the tax and benefit system that may make taking up work of this type unattractive, and considers how lone parents' labour market behaviour might be affected. The reforms considered are:

- a decrease in the qualifying hours for Working Tax Credit
- an increase in the Income Support disregard alone
- an increase in the Income Support disregard, accompanied by an increase in the disregard within Housing Benefit and Council Tax Benefit.

The most attractive reform is an increase in earnings disregards within Income Support (IS), Housing Benefit (HB) and Council Tax Benefit (CTB), especially if accompanied by further efforts to reduce processing times for in-work HB/CTB claims and increase awareness of HB/CTB as in-work benefits. Such a policy would strengthen incentives for almost all lone parents to work in mini-jobs, and it would also strengthen incentives for lone parents eligible for Housing Benefit and Council Tax Benefit to work in jobs of 16 or more hours. Given that such lone parents currently face extremely poor incentives to work at all, this side effect seems extremely desirable. Our modelling suggests that a substantial increase in the earnings disregard in all means-tested benefits to 16 times the minimum wage could lead – if awareness of in-work benefits improved – to up to a 5.4 percentage point increase in the number of lone parents in work, at a cost per job far lower than for the Working Families' Tax Credit. It could also increase lone parents' income by £1.40 for every £1 spent by the Government. Given that the Government still has some way to go before meeting its target of having 70 per cent of lone parents in employment by 2010, this appears an attractive option.

An increase in the Income Support disregard alone to the same level would have a more modest impact, increasing lone parent employment of 2.3 percentage points at

an accompanying more modest price tag. It would, however, create a new distortion in the incentives to work above and below 16 hours and, for this reason, were such a policy to be implemented, we would recommend that it should be time-limited for a year. This would mean that this policy would look very like the recently announced £86 earnings disregard within the new Employment and Support Allowance that will replace Incapacity Benefit.

A reduction in the hours worked necessary to claim Working Tax Credit would encourage mini-jobs but have a less significant impact on employment. However, if the Government's aim were solely to decrease the number of benefit claimants, this policy might have more appeal.

Although these policies would all increase the number of lone parents in paid work and the number working in mini-jobs, the Government might be concerned that they could also lead some lone parents to work fewer hours and that some mini-jobs might not be sustainable. Both of these concerns could be addressed by time-limiting these policies. Furthermore, the policies that maintain entitlement to Income Support and the attendant obligations to engage with Jobcentre Plus (which would have to be substantially modified for lone parents working in mini-jobs) would also give the Government a mechanism to encourage parents to increase their hours of work.

This Government has made substantial strides in both increasing the lone parent employment rate and tackling child poverty, but progress on both targets is stalling. Increasing the incentives for lone parents to work in mini-jobs would not only remove the disparity between the incentives for lone parents and mothers in couples but also have the potential to make a substantial contribution towards these targets.

1 Introduction

The Government sees jobs of less than 16 hours, often known as ‘mini-jobs’ as ‘an important part of the UK labour market’ (HC492, 2007). At present, the financial incentives for lone parents to work in jobs of these hours are poor and few do so. Just 5 per cent of lone parents work in such jobs, compared to 53 per cent in jobs of 16 hours or more and 42 per cent not in paid employment (Hoxhallari *et al.*, 2007). The current Government has, moreover, set two overarching objectives to:

- ensure adequate financial incentives to work
- reduce child poverty and increase financial support for all families (HM Treasury, 2005).

This report discusses the potential for changes to the financial incentives for lone parents to take up mini-jobs and the extent to which this would help Government to meet these two aims.

The role of mini-jobs in meeting these objectives has gained increased attention of late. The Department for Work and Pensions commissioned research on the role of mini-jobs in the rate of mothers’ participation in paid work, which was carried out at the same time as this research (Hales *et al.*, 2007, forthcoming). We were able to see drafts of this work and we make references to it where applicable.

As part of its strategy to meet the objectives of tackling poverty and ensuring adequate financial incentives to work, the Government has set a target to have 70 per cent of lone parents in employment by 2010. There has been considerable success in encouraging lone parents to work 16 hours or more since 1997, with the lone parent employment rate rising from 45 per cent when the Labour Government took office to around 56 per cent today. Researchers have suggested that around five percentage points of this can be attributed to policy reform.¹ Yet current progress is not rapid enough to meet the 70 per cent target and one study predicts that the rate will reach at best 65 per cent by 2010 (Gregg *et al.*, 2006). The Government has recently suggested reforms intended to increase the employment rate of lone parents in a Green Paper that proposes increasing the work search requirements imposed on those claiming benefits (DWP, 2007d). Policy changes that encouraged lone parents to move into work of less than 16 hours, if these were lone parents who would not otherwise have moved into work, could represent an alternative or additional strategy to make up the extra 5 per cent needed to meet the target – currently assessed on all work of one hour or more.

Most importantly, increasing employment rates in this way would help to tackle the high rates of poverty among one-parent families; children of lone parents currently make up 42 per cent of all poor children (DWP, 2007a) and non-working lone parents face particularly high rates of child poverty.

Increasing employment rates has been a key part of the Government’s anti-poverty strategy thus far. Key factors in explaining the falls in child poverty to date are the fall in the proportion of children living in workless families and falls in the risk of poverty both for those in workless families and for those with a lone parent working part-time (Brewer *et al.*, 2006a). While increases in lone parent employment are likely to be insufficient to reach the 2010 child poverty target alone – for the target to be met for lone parents, an 86 per cent employment rate would be required (Harker, 2006) – increases both in the proportion of lone parents with earnings from paid work and in the proportion of those earnings that they could keep will clearly reduce poverty rates among lone parents (even if it makes a relatively small contribution to the overall child poverty rate). Moreover, of the 1.5 million children in poverty who live in lone-parent families, around 900,000 are within £50 per week of the poverty line.² This suggests that a policy that increased earnings or incomes by a relatively small amount could be relatively effective in lifting large numbers of people above the poverty line.

At present, the financial incentives for a lone parent to enter work of less than 16 hours are poor. As one lone parent who wrote to One Parent Families put it:

The benefits system is appallingly complicated. Three different departments all with different bench marks. If I earn more than £20 per week I lose income support, if I work less than 16 hours I get no tax credits.

A lone parent on Income Support can earn up to £20 a week before Income Support is reduced pound for pound for all earnings above this level. As we show in more detail in Chapter 3, the gain to working at the minimum wage for a lone parent with one child who is eligible for Housing and Council Tax Benefit is around £20 a week for four hours’ work, around £24 a week for 15 hours’ work, but around £44 a week for 16 hours’ work (all before paying for childcare and other work-related expenses).³ Given these incentives, the low rate of lone parents who do mini-jobs at present (4 per cent) is not really surprising.

Common sense, as well as basic economic theory, would suggest that increasing the gain to work in mini-jobs would encourage more lone parents to do mini-jobs rather than not work. But policies that increase the gain to work in mini-jobs but not in jobs

of 16 or more hours not only make doing mini-jobs a little more appealing compared with not working at all, but also make doing mini-jobs a little more appealing compared with doing jobs of 16 or more hours. We would therefore expect that policies that increased the gain to work in mini-jobs would, in the first instance, lead to fewer lone parents not working, fewer lone parents working in jobs of 16 or more hours, but more lone parents working in mini-jobs.⁴ A key contribution of this report is that it uses a model of lone parents' labour supply behaviour that has previously been used successfully to predict the response of lone parents to the introduction of Working Families' Tax Credit (WFTC) to assess the likely response to policies that increase the gain to work in mini-jobs.⁵

Box 1 Reforms for lone parents or all families with children?

This report sets out changes to Income Support and tax credits, which need not in practice be restricted to lone parents, although they might be restricted to families with children (it is beyond the scope of this report to consider whether other groups should also be encouraged to work in mini-jobs).

However, Chapter 5 of this report focuses on lone parents and does not attempt to model the labour supply reaction of couples with children to the reforms under consideration. This is partly because there is less consensus on how couples with children react to financial work incentives than there is for lone parents. But it is also because the authors believe that, given the overwhelming tendency for primary earners in couples with children to work full-time, very few primary earners in couples with children would choose to work in mini-jobs even if they were made more financially appealing.

Of course, many second earners in couples work in mini-jobs, but their incentives to do so would be almost entirely unaffected by the reforms we propose – Brewer (2007) consider changes to tax credits that would encourage potential second earners to work.

Chapter 2 of this report discusses the characteristics of jobs of less than 16 hours themselves, before looking at the characteristics of those who are employed in these jobs, with a focus on lone parents. Chapter 3 looks at the specific issues around mini-jobs for lone parents, including their financial incentives to work in such jobs, evidence of demand for work of this type and the role that mini-jobs play in lone parents' labour market trajectories. Chapter 4 looks at evidence from previous policy changes in this area and Chapter 5 then sets out a number of changes to benefits and tax credits that would make mini-jobs more financially appealing. Using the model of lone parents' labour supply behaviour, it predicts the labour supply

response to these changes, the likely cost to the Government and the distributional impact among lone parents. The final chapter draws some conclusions and makes policy recommendations.

2 The characteristics of mini-jobs and those working in mini-jobs

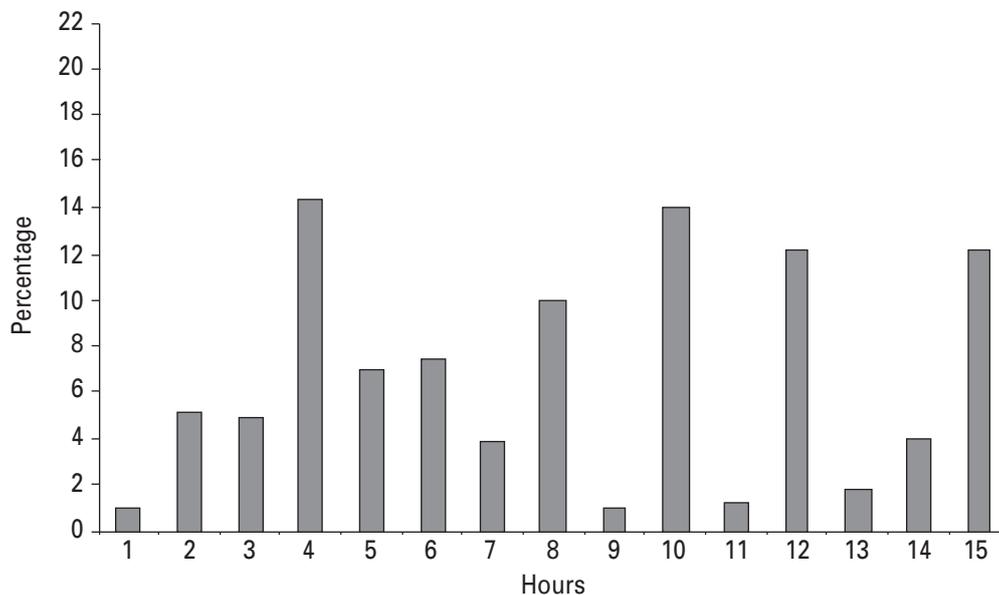
This chapter analyses the sort of jobs that are done for less than 16 hours a week and the sort of people who work for less than 16 hours a week. The chapter is based mostly on new analysis of the household Labour Force Survey (LFS). We use two different definitions of mini-jobs in this analysis. When we talk about the jobs themselves, we refer to all jobs done for fewer than 16 hours a week. When we talk about the characteristics of those working in mini-jobs, we refer to all individuals in employment for fewer than 16 hours per week. We also report the findings of Hales *et al.* (2007, forthcoming), which analysed the characteristics of mini-jobs using the most recent wave of the Families and Children Study.

The characteristics of mini-jobs

The Labour Force Survey estimates that, in 2005–06, there were 2.6 million jobs of less than 16 hours per week being undertaken in the UK. Of these, 1.83 million are the primary or only job undertaken by the relevant individual and 0.77 million are secondary jobs.

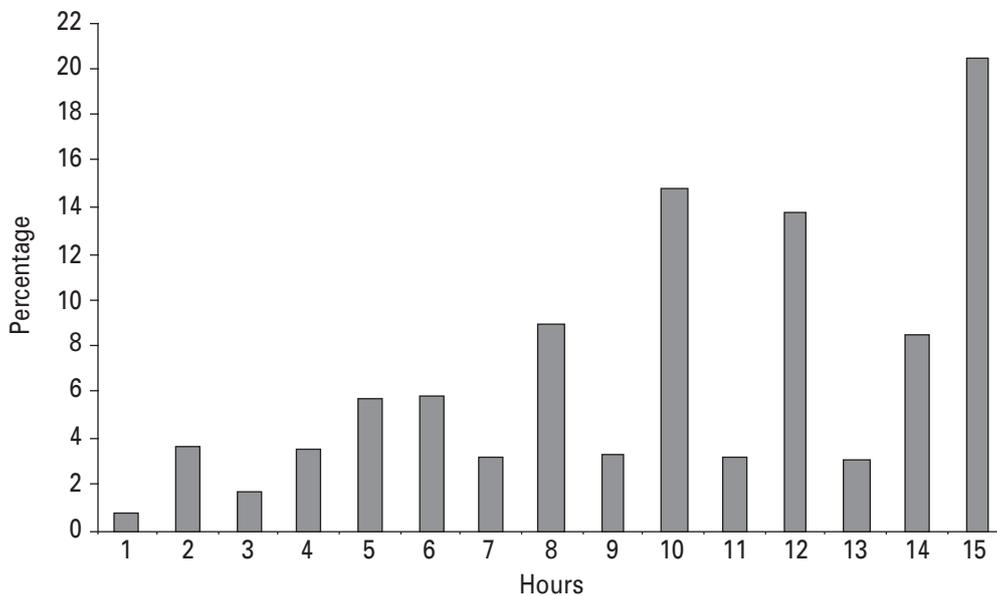
The pattern of hours worked in mini-jobs varies quite significantly by family type, and this may reflect the influence of the tax and benefit system on the type of job taken up by different parents. Figures 1 and 2 show the distribution of hours worked in mini-jobs by lone parents and by mothers in couples. The distribution of the hours that lone parents work in mini-jobs shows a distinct peak at four hours, which is absent from that for mothers in couples (and for other groups – see Figure A1.1 in Appendix 1). This corresponds approximately with the £20 disregard in Income Support if we assume employment at the national minimum wage.

Figure 1 Hours worked by lone parents in mini-jobs



Source: authors' calculations from household LFS 2005–06.

Figure 2 Hours worked by mothers in couples in mini-jobs



Source: authors' calculations from household LFS 2005–06.

On the other hand, for mothers in couples (and others), there is a peak at 15 hours, which is relatively unattractive for lone parents because of both the 100 per cent income support taper and ineligibility for the Working Tax Credit, but which could be two full (7.5 hour) days or three part-time (five-hour) days. Overall, as shown in Table 1, lone parents do work fewer hours in mini-jobs than mothers in couples. Hales *et al.* (2007, forthcoming) found similarly that, while four-fifths of couple mothers doing mini-jobs worked eight to 15 hours a week, only half of lone parents in these jobs worked eight or more hours. This analysis also showed that there was a particular tendency for lone parents to be working exactly 16 hours a week, compared with mothers in couples, which may be seen as further evidence of the particular impact of the tax and benefit system on lone parents' decisions about employment.

Table 1 Hours worked in mini-jobs by family type

Job/employment type	Type of person			Total
	Lone parents	Mothers in couples	Others	
Mean	8.4	10.3	10.1	9.0
Median	8	10	10	10
Mode	4	15	15	15

Note: hours of work are measured across all jobs. The 'mode' is the most common choice of hours worked (from one to 15, having rounded fractions of hours).

Source: authors' calculations from household LFS 2005–06.

Further analysis of mini-jobs suggests that they are generally low-skill, low-responsibility and less stable jobs than both longer part-time jobs and particularly full-time jobs. Hales *et al.* (2007, forthcoming) likewise found that mini-jobs were more likely to be found among less skilled types of work and that this was particularly the case for lone parents. Over half of lone mothers in mini-jobs were working in low-skilled occupations, compared to just under a quarter of couple mothers in these jobs. Mini-jobs are very noticeably less likely to involve managerial or supervisory responsibility than other jobs; they are far more likely to be in elementary or unskilled occupations and low-paid sectors of the economy; they are more likely to be temporary and on a casual basis; and they are less likely to involve regular training (see Tables A1.3 to A1.8 in Appendix 1). However, it must be noted that these features could reflect both the type of people doing mini-jobs and the sort of jobs that can be done for a few hours a week.

Moreover, Hales *et al.* (2007, forthcoming) found substantial overlap between the types of job done by mothers working for more, and fewer, than 16 hours a week. They also found that many of these jobs – on both sides of the 16 hours line – were those traditionally associated with female employment, in particular caring for children.

In sum, therefore, the evidence suggests that mini-jobs are generally of a lower ‘quality’ than jobs of longer hours. Work by Francesconi and Gosling (2005) similarly found that women in mini-jobs were 54 per cent less likely to receive training than full-time employees, although it should be noted that ‘part-time’ workers were also significantly less likely (31 per cent) to receive training. However, they also found that levels of job satisfaction were in fact higher for those in both part-time work and mini-jobs, with those in mini-jobs more satisfied with both their levels of pay and job security, suggesting perhaps that some people are making a conscious trade-off when accepting these jobs.

Hales *et al.* (2007, forthcoming) also looked at levels of pay in mini-jobs. While they found that the lower skill profile of mini-jobs was reflected in pay, they concluded that:

... there is no evidence that those doing mini-jobs received consistently lower wages than those working full time.

The characteristics of those working in mini-jobs

Work of less than 16 hours varies quite significantly by family type, with lone parents slightly more likely to work in mini-jobs than ‘other’ groups, but significantly less likely to do so than mothers in couples (see Table 2).

Table 2 Job/employment type by family type (percentages in brackets)

Job/employment type	Type of person			Total
	Lone parents	Mothers in couples	Others	
None	843,242 (45.3)	1,695,215 (30.9)	8,778,901 (29.9)	11,317,358 (30.8)
1–15 hours (mini-jobs)	65,682 (3.5)	560,014 (10.2)	931,745 (3.2)	1,557,441 (4.2)
16–29 hours	365,050 (19.6)	1,375,101 (25.0)	1,865,348 (6.4)	3,605,499 (9.8)
30+ hours	585,660 (31.5)	1,863,729 (33.9)	17,733,284 (60.6)	20,222,673 (55.1)

Note: in this context the classification of employment/job type is based on total hours worked in all jobs for a person. Hence, someone working 16–29 hours might be working two mini-jobs of ten hours each. The following sections detailing the characteristics of mini-jobs base their definitions on the hours of each individual job.

Source: authors’ calculations from household LFS 2005–06.

Analysis of the Families and Children Study in Hales *et al.* (2007, forthcoming) shows slightly greater numbers of lone parents and mothers in couples working in mini-jobs, 4.9 and 11.9 per cent respectively.

The difference is even more pronounced if lone parents and mothers in couples with similar educational backgrounds are compared, with 11.1 per cent of mothers in couples with an education below GCSE level working in mini-jobs compared to 3.6 per cent of lone parents (see Appendix 1).

This difference in the proportion of lone and coupled mothers in mini-jobs has also been found in the Families and Children Study and over time (see Table 3). The consistency of the difference between the two groups, at a time when lone parents' labour market participation rates have been catching up with those of partnered mothers, again suggests that tax and benefit rules may be influencing lone mothers' participation in jobs of these type.

Table 3 Lone and couple mothers working less than 16 hours a week – evidence from the Families and Children Study

Year	Percentage of employed lone mothers working 1–15 hours a week	Percentage of employed couple mothers working 1–15 hours a week
2005	8	17
2004	8	17
2003	8	18
2002	9	18
2001	8	21

Source: derived from Kasparova *et al.* (2003), Barnes *et al.* (2004), Barnes *et al.* (2005), Lyon *et al.* (2006), Hoxhallari *et al.* (2007).

As Kasparova *et al.* (2003) pointed out in their analysis of the 2001 Families and Children Study, being in a couple means that it is significantly easier to work fewer hours, perhaps as part of a staged return to work. The potential for help with childcare provided by a partner, as well as any income brought in by a partner, means that mothers in couples have less need to make the leap directly to 16 hours in order to secure the Working Tax Credit, which may provide the only source of these types of support for lone mothers.¹

Looking at the characteristics of *all* those who work in mini-jobs across the Labour Force Survey, those working under 16 hours a week are less well qualified than those working full-time; comparisons with those working part-time are less clear-cut, although it appears that individuals in mini-jobs are less likely to have taken a vocational route. In terms of family composition, those with more children make more use of mini-jobs, particularly for mothers in couples. For married/cohabiting mothers,

those working in mini-jobs make up about 10 per cent of working mothers with one child, but 26 per cent of working mothers with four or more children. A similar but much less significant relationship holds for lone parents (6 per cent and 10 per cent respectively) – although this, again, could be interpreted to mean a ‘pent-up’ demand for mini-jobs among lone parents (see Tables A1.9 to A1.14 in Appendix 1).

Rafferty (2003) used the Families and Children Study to examine the characteristics of lone mothers working less than 16 hours a week and also found that those in work of this type tended to have more characteristics normally associated with ‘disadvantage’ than other lone mothers.

- Lone mothers working less than 16 hours were typically younger, had larger families and younger children, and were less qualified than those working longer hours.
- Fifty-one per cent of lone mothers working less than 16 hours were working in elementary-level occupations compared to 15 per cent of those working longer hours.
- Sixty-one per cent of lone mothers in work of less than 16 hours reported hardship. Hardship levels were lower than for lone mothers not in work (70 per cent) but considerably higher than for those in longer hours’ employment (42 per cent).
- The levels of hardship, ill health and social housing tenancy among lone mothers working fewer than 16 hours a week were more similar to those of lone mothers outside paid employment than to those who worked longer hours. In terms of ‘barriers to employment’, those working less than 16 hours appeared to occupy a middle position between those working no hours and those working more than 16.
- However, in terms of attitudes, work-related attitudes of those working less than 16 hours were similar to those working longer hours but differed from those outside paid employment.

The analysis of the Labour Force Survey for this report showing that lone parents and mothers in couples with fewer educational qualifications were more likely to work in mini-jobs than either group as a whole may also suggest that mini-jobs are particularly attractive to more ‘disadvantaged’ workers. However, in contrast to Rafferty’s (2003) findings, the educational qualifications of lone parents in mini-jobs in this analysis appeared closer to those of lone parents in other part-time jobs than

to those out of work, with 13.4 per cent of those in mini-jobs having no qualifications, compared to 13.4 per cent of those in jobs of 16–29 hours, but 33.1 per cent of those out of work (see Appendix 1).

Conclusions

- According to the Labour Force Survey (Families and Children Study), 3.5 per cent of lone parents (6.5 per cent of employed lone parents) are currently working in mini-jobs, compared to 11 per cent of mothers in couples (14 per cent of employed mothers in couples).
- The median number of hours worked in all mini-jobs is ten per week, although lone parents work slightly shorter hours, with a median of eight hours.
- A comparison of the distribution of hours worked by lone parents and mothers in couples suggests that tax and benefit rules have a clear influence on working patterns. The most common choice of mini-job by mothers in couples is one of 15 hours a week, but the most common choice by lone parents is one of four hours a week, which would give weekly earnings around the level of the disregard in Income Support.
- Mini-jobs tend to be of poorer 'quality' than longer hours' employment.
- Those working in mini-jobs tend to have characteristics often associated with poorer employment chances and some analysis shows that lone parents working in mini-jobs share more characteristics with out-of-work lone parents than with those who are employed in longer hours' positions.

3 Lone parents and mini-jobs

This chapter reviews the existing literature to focus on the relationship between lone parenthood and working in a mini-job, in order to provide the context for any potential reforms. It includes:

- an assessment of current financial incentives to work in mini-jobs
- a discussion of the demand among lone parents for work of less than 16 hours
- a discussion of the role mini-jobs play in lone parents' labour market trajectories.

Financial incentives to do mini-jobs

Although the Government's employment target for lone parents defines 'work' as any job of one or more hours a week, at present there are few incentives to work for less than 16 hours. The rules for Income Support (and income-related Jobseeker's Allowance: hereafter we refer to just 'Income Support') allow a lone parent to earn up to £20 a week before her Income Support will be reduced pound for pound for all earnings above this level. With the minimum wage currently at £5.52 an hour,¹ it is therefore unlikely to be worth working more than four hours a week and the low rate of participation in mini-jobs at present (4 per cent) may suggest that few see this as worthwhile.²

On the other hand, the gain to working 16 or more hours a week is substantially higher thanks to the Working Tax Credit, including its contribution to childcare costs, and the fact that the Child Tax Credit is not tapered away if annual income is below £14,495. Working four hours a week at the national minimum wage would leave a lone parent with one child £20 a week better off than not working at all and working 15 hours a week would mean being nearly £24 a week better off. But the gain to working 16 hours a week would be £95.13 for a lone parent not paying rent or council tax, or around £45 a week if paying rent and council tax and thus receiving Housing Benefit (HB) and Council Tax Benefit (CTB) – see Table 4.

Table 4 Illustrative weekly incomes for a lone parent with one child at different hours of work in the 2007–08 tax and benefit system

	Working 0 hours (£)	Working 4 hours a week (£)	Working 15 hours a week (£)	Working 16 hours a week (£)
Earned income	0	22.08	82.80	88.32
Child Benefit	18.10	18.10	18.10	18.10
Tax credits (Child Tax Credit and Working Tax Credit)	45.96	45.96	45.96	111.92
Income Support	59.15	57.07	0	0
Housing Benefit	60.00	60.00	60.00	23.11
Council Tax Benefit	16.53	16.53	16.53	2.47
<i>Total</i>	<i>199.74</i>	<i>£219.74</i>	<i>223.39</i>	<i>243.92</i>
Total after deducting rent and council tax	123.21	143.21	146.86	167.39
<i>Gain to work</i>	<i>n/a</i>	<i>20</i>	<i>23.65</i>	<i>44.18</i>
<i>Gain to work if not eligible for HB and CTB</i>	<i>n/a</i>	<i>20</i>	<i>23.65</i>	<i>95.13</i>

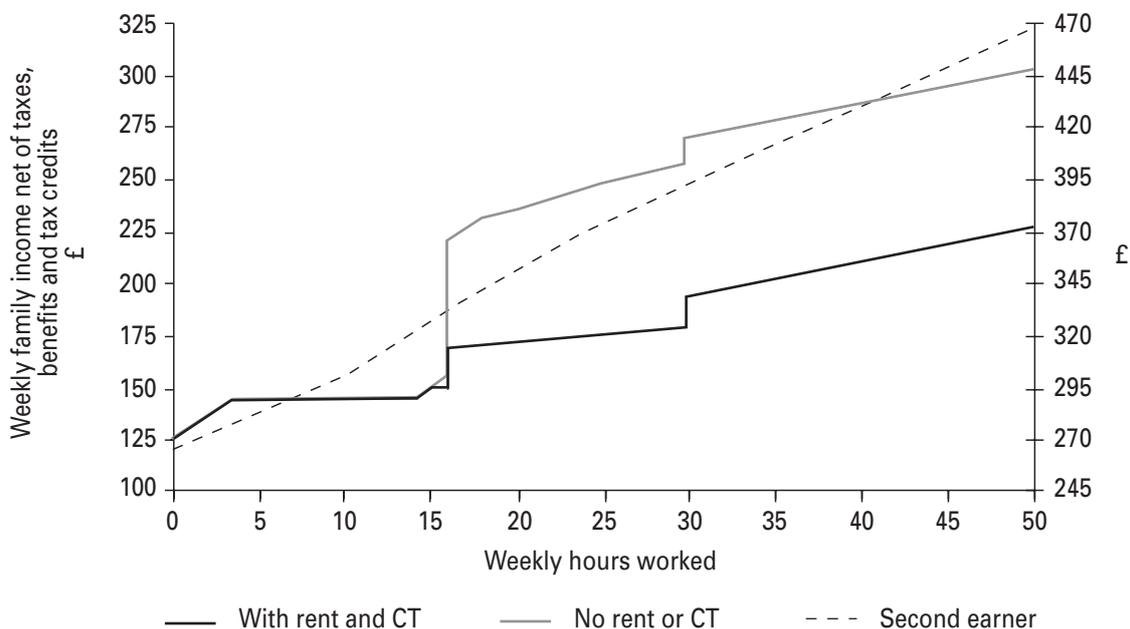
Assumes rent of £60 a week, council tax of £859.56 a year (average Band C rate in East Midlands), no childcare costs nor maintenance payments.

Source: authors' calculations.

These incentives are summarised in Figure 3, which shows how net income (gross earnings less direct taxes plus benefits and tax credits) varies with hours worked a week at the minimum wage. To provide some contrast, it also shows an example budget constraint for a second earner in a low-income family with children (the budget constraint for the second earner is shown on the right-hand axis, but the scale is the same so that a given vertical distance represents the same number of pounds).

Figure 4 shows a measure of the financial (dis)incentive to work for the same three example family types, the participation tax rate (PTR).³ The participation tax rate – explained further in Box 2 later in this chapter – is a measure of how income tax, national insurance, tax credits and withdrawal of means-tested benefits reduce the financial gain to work. High PTRs indicate that the gain to work (as a proportion of gross earnings) is small; negative PTRs indicate that the gain to work is greater than gross earnings (this can arise for some lone parents not receiving HB or CTB because entitlement to Working Tax Credit [WTC] at low levels of earnings can exceed entitlement to IS).⁴

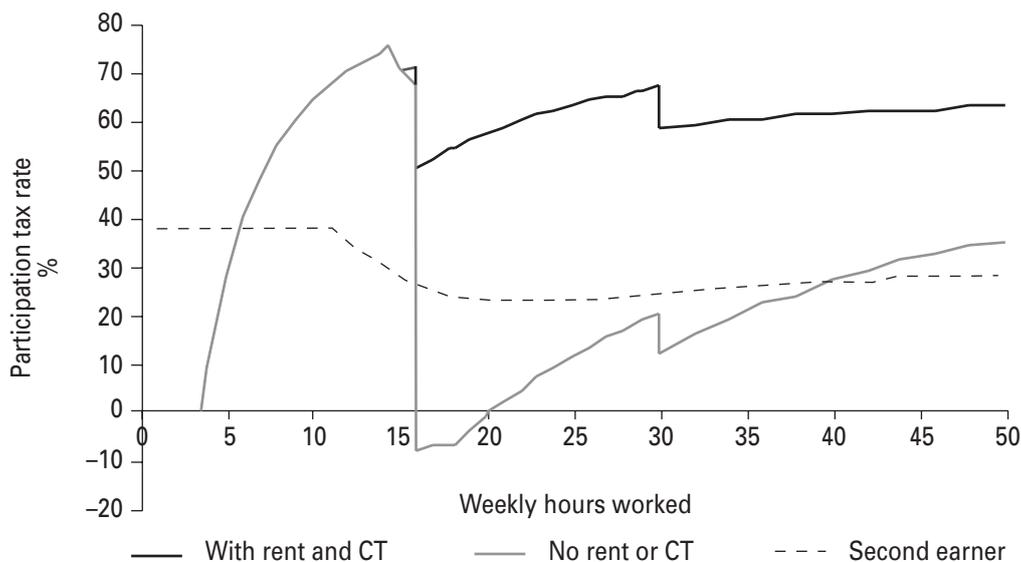
Figure 3 Example budget constraints for lone parent and second earner with one child earning minimum wage, April 2007–08 tax and benefit rates



Note: assumes lone parent earns £5.52 an hour and has one child aged at least one year. Ignores childcare costs. Line with rent and CT (council tax) assumes rent of £60 and council tax of £16.53 a week. Line for second earner in couple assumes first earner earns £350 a week and second earner earns £5.52 an hour. The line with rent and CT is coincident with the line with no rent and CT until hours reach 16.

Source: authors’ calculations using IFS tax and benefit model, TAXBEN.

Figure 4 Example participation tax rates for lone parent with one child earning minimum wage, April 2007–08 tax and benefit rates



Note: assumes lone parent earns £5.52 an hour and has one child aged at least one year. Ignores childcare costs. Line with rent and council tax (CT) assumes rent of £60 and council tax of £16.53 a week. The line with rent and CT is coincident with the line with no rent and CT until hours reach 16.

Source: authors’ calculations using IFS tax and benefit model, TAXBEN.

Figures 3 and 4 show a number of points.

- Incentives for lone parents to do mini-jobs are very weak. Figure 3 clearly shows the impact of the 100 per cent withdrawal rate in Income Support, where net income is unchanged as hours rise from four to 15. In this range, PTRs are extremely high (Figure 4), rising from 0 per cent at four hours a week to just over 70 per cent at just over 14 hours of work a week (the point at which entitlement to Income Support has been exhausted for this lone parent).
- For a lone parent, incentives to do part-time work are greater than those for mini-jobs (and much greater if the lone parent is not receiving HB or CTB). For a lone parent not receiving HB or CTB, net income rises considerably at 16 hours a week (Figure 3) and the PTR falls to a negative number (Figure 4). After 16 hours, the PTR steadily rises, but reaching a maximum of less than 30 per cent, considerably lower than its high point of 70 per cent around 15 hours a week. For the lone parent receiving HB and CTB, at 16 hours the PTR still falls, but by nowhere near as much, and then rises as hours increase further. This highlights the distortion made to the budget constraint by the combination of the 100 per cent taper in Income Support and the large increase in transfers from the Government when hours increase from 15 to 16.
- Apart from jobs of under four hours a week, the second earner in a low-income couple with children generally faces stronger incentives to work than a lone parent receiving HB and CTB, but weaker incentives to work between four and 40 hours than a lone parent not receiving HB and CTB.⁵
- For second earners, there is much less difference than there is for the lone parents between the incentives to do mini-jobs and the incentives to do part-time work. Although the PTR for mini-jobs is higher than it is for part-time work for this second earner, the PTR for mini-jobs never exceeds 37 per cent, whereas the PTR for a lone parent working ten hours a week is just under 67 per cent.

Box 2 The participation tax rate (PTR)

The participation tax rate shows the extent to which participation in the labour market is taxed (where 'tax' means 'tax paid and benefits and tax credits foregone').

(Continued)

Box 2 The participation tax rate (PTR) – *continued*

It measures the proportion of gross earnings lost to tax or reduced benefits and tax credits and is calculated as $1 - \{(\text{net income in work} - \text{net income out of work}) / \text{gross earnings}\}$.

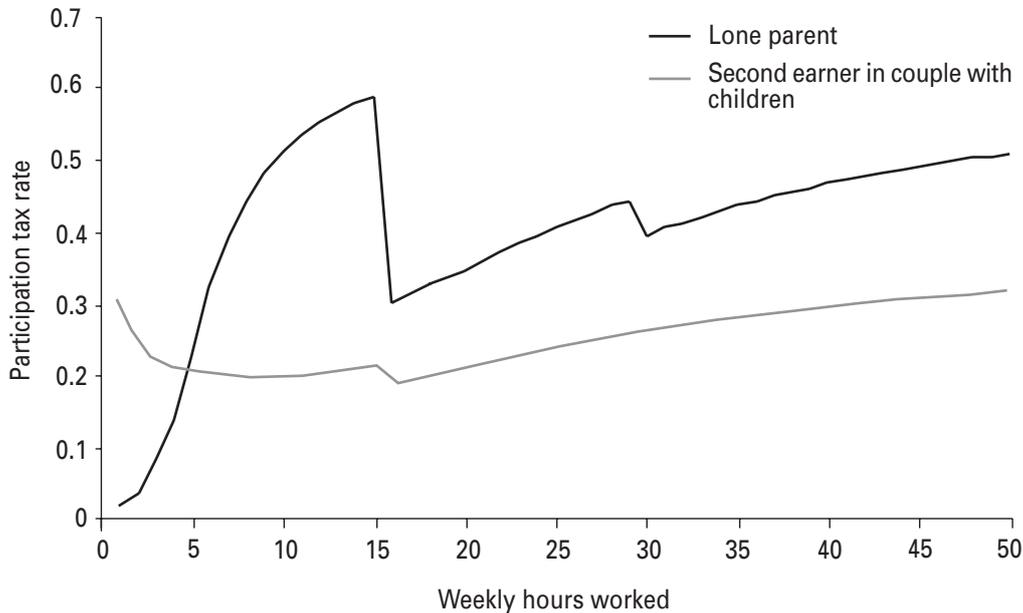
For example, if a person was entitled to benefits of £50 if they did not work, and had a net income of £150 if they had earnings of £250, then the participation tax rate would be $1 - (150 - 50) / 250$, or 0.6 (i.e. 60 per cent).

Lower PTRs mean stronger financial incentives to work: a participation tax rate of 0 would mean that an individual got to keep all of their gross earnings, and lost no benefits or tax credits, when they worked; a participation tax rate of 1 would mean that there is no financial reward to working. Negative PTRs arise for some lone parents when entitlement to WTC in work exceeds entitlement to IS when not working (and may also arise in practice for lone parents receiving child maintenance).

Some of these conclusions are sensitive to the assumptions made (about, for example, the number of children in the family, the level of rents and council tax, the earnings assumed for the main earner in the couple, whether lone parents receive maintenance, the cost of childcare and how it varies with hours worked). For this reason, Figure 5 shows an estimate of how (average) participation rates in the population as a whole vary with hours worked a week for lone parents and women in couples with children with a working partner (i.e. potential second earners).

Figure 5 shows that, other than at very low hours a week – when lone parents’ earnings are not taxable and fall within disregards in means-tested benefits, whereas earnings of some second earners reduce entitlement to tax credits – average PTRs for lone parents exceed those of mothers in couples by at least ten percentage points (and more for mini-jobs). For example, the average PTR facing lone parents if they were all to work ten hours a week would be 55 per cent, but the average PTR facing second earners is 20 per cent.

Figure 5 Average (mean) participation tax rates by hours worked per week for lone parents and women in couples with children with working partners



Note: figure shows, for each hour, the average (mean) PTR among all lone parents and all women in couples with children in the FRS 2004–05 dataset. People observed in the FRS 2004–05 in work have the PTR calculated using their implied hourly wage (weekly earnings/weekly hours including in all jobs). Those not in work are assumed to earn the minimum wage. Self-employment profits have been treated like earnings and an implied hourly wage calculated. Childcare costs are ignored. Full-time students and people aged under 20 or over 60 are excluded.

Sources: authors’ calculations using the FRS 2004–05 and the IFS tax and benefit model, TAXBEN. Contact authors for more detail.

Is there a demand among lone parents for work of less than 16 hours?

The labour market behaviour of lone parents, and particularly lone mothers, is often compared to that of mothers in couples. The fact that over twice as many mothers in couples are working in mini-jobs as lone parents, as discussed in Chapter 2, may itself be seen as evidence that the operation of the tax and benefit system is frustrating demand for work of this type among lone parents. However, Hales *et al.* (2007, forthcoming) suggest that there may be differences in the way that mothers in couples and lone parents use mini-jobs, finding that those couples who stayed in mini-jobs tended to have both a stable relationship and a higher income. They conclude that these factors may act as a barrier to the greater take-up of mini-jobs by lone parents; it is equally arguable, however, that ensuring that lone parents in such jobs receive a stable income could encourage them to behave in the same way as mothers in couples.

Many lone parents, moreover, may want to be in work of these hours. Lessof *et al.*'s (2001) survey of lone parents on Income Support found that 12 per cent said that they wanted to move into work of less than 16 hours a week.

Numerous qualitative studies have found a preference for part-time work among lone parents, often as a means of managing their competing roles as parent and worker (e.g. Millar and Ridge, 2001). Bell *et al.*'s (2005) qualitative study of parents' work and childcare preferences found lone parents expressing a strong desire for part-time hours, particularly during school hours. For some, this reflected a desire to 'be there' for their children; for others, it was due to a nervousness about work and a desire to return to work gradually in order to ensure that they could continue to cope with their home responsibilities. Graham *et al.* (2005) found that a key factor in sustaining work for mothers was ensuring that work commitments still allowed them to fulfil housework obligations, to prepare meals, or at least be at home at mealtimes, and to just 'be there for the children.'

Such considerations may of course be met by part-time work of 16 hours or more. However, Bell *et al.* (2005) found a demand for work specifically of less than 16 hours and a disappointment that the Working Tax Credit provided no incentive to undertake such work:

Some parents expressed a desire to work for fewer than 16 hours a week, as part of a gradual entry or return to the labour market, perhaps aiming to mirror the building up of hours of childcare, which was sometimes preferred in order to allow the whole family to settle into a new routine slowly, diluting the impact of what can be a traumatic transitional phase. Owing to the 16 hour threshold, the WTC did not motivate these parents to seek work.

Rafferty's (2003) work showing that lone mothers in work of less than 16 hours share characteristics with those out of work suggests that mini-jobs may be particularly appealing to those further from the labour market:

Many of the barriers that restrict overall labour market entry such as the presence of young children in the home, having a larger family and lack of qualifications also seem to restrict the number of hours worked in this study. Yet despite the higher presence of such barriers amongst lone mothers working fewer than 16 hours per week compared to those working longer hours the majority of this group managed to remain in employment.

The Families and Children Study asks those working one to 15 hours a week why they are not engaged in longer hours' work. The two largest 'barriers' to working longer hours for lone parents were:

- not wanting to spend more time apart from children (45 per cent)
- cannot afford childcare (25 per cent) (Lyon *et al.*, 2006) (see Appendix 2).

These reasons for not working longer hours are very similar to those reasons given by mothers not working for not wanting to move into work at all. This suggests that mothers working in mini-jobs face similar pressures to mothers not currently working, which may indicate that mothers not currently working would be able to work in mini-jobs were the incentives to do so stronger.

Analysis of the Labour Force Survey shows that a significant number of all workers in mini-jobs would like to work for more hours (at current pay) and that this is particularly stark for lone parents: 36 per cent of lone parents working in mini-jobs want to work longer hours (as opposed to just 19 per cent of mothers in couples and 16 per cent of other people). This might be evidence that the tax and benefit system is frustrating their desire to work longer hours, but it is not clear whether respondents take account of the loss of income support if they were to work longer hours when they answer this question (see Tables A1.17 to A1.19 in Appendix 1).

The potential of mini-jobs to act as a 'stepping stone' to longer hours' work

Most commentators who have suggested that the Government may want to encourage mini-jobs have done so in the belief that these will provide a 'stepping stone' into work of longer hours (Millar *et al.*, 2006). There are good reasons for believing that this may be the case. Those who have been out of the labour market for some time may want to return to work gradually, to build up confidence and work experience, and to settle their children into childcare arrangements (Bell *et al.*, 2005). Work may also increase social capital and work-related contacts who could lead to longer hours' work (Iacovou and Berthoud, 2000; Millar *et al.*, 2006).

Qualitative studies provide support for the idea that mini-jobs act as a stepping stone. Millar *et al.* (2006) found that many lone parents now in work of 16 hours or more had moved into this as a gradual process, after working part-time, engaging in voluntary work or training while on Income Support. Bell *et al.* (2005) found a desire among some lone parents to move into work gradually.

Mini-jobs are certainly a relatively popular option among those lone parents who move into work. Barnes *et al.* (2005) estimate that 29 per cent of lone parents who moved into work over a 12-month period between 2001 and 2003 did so into a mini-job, and Blundell *et al.* (2005), using data from 1991 to 2003, estimated the equivalent proportion to be 43 per cent; by contrast, the fraction of all working lone parents who are in mini-jobs is far lower (around 6 per cent according to the LFS or 8 per cent according to the Families and Children Study).⁶

But quantitative studies have found more mixed evidence on whether mini-jobs act explicitly as a 'stepping stone' to longer hours' work. The clearest suggestion that mini-jobs help lone parents move into work came from Iacovou and Berthoud's analysis in 2000, using the first seven waves of the British Household Panel Study. Taking as their sample all cases of adults who were in a workless family with children at a point in time, were aged under 55 and for whom they had data in the year following that point in time, they found that, for all groups, those working in mini-jobs of less than 16 hours a week were more likely than those not doing so to move into full-time work and, the more hours worked, the stronger the effect. Nineteen per cent of their sample of lone mothers were working for less than 16 hours per week and they estimated that the likelihood of lone mothers moving into a job of 16 hours or more increased for each hour that they worked in one of these mini-jobs. They also found that, although there were moves from mini-jobs in both directions, i.e. towards both fewer (or zero) hours' working and longer hours' work, more people took up mini-jobs from no job than left a mini-job for no job, and more people moved from mini-jobs to bigger jobs than in the opposite direction, although the authors stress that they have not observed causality in their analysis. Many of the moves from mini-jobs to jobs with more hours involved moving to a different employer or a different job, or both.

However, recent work looking at mothers' participation in mini-jobs questions some of these findings. Hales *et al.* (2007, forthcoming) conclude that 'the significance of mini-jobs as a precursor to working additional hours was probably over-stated in their [Iacovou and Berthoud's] report', although they state that they are 'in agreement with Iacovou and Berthoud on the *potential* attractiveness of mini-jobs as an initial step in the direction of working for mothers who are not working at a point in time and who would find it difficult to move directly into work of 16 or more hours a week' (Hales *et al.*, 2007, forthcoming, authors' original emphasis).

The most consistent finding from other research to emerge around mini-jobs for lone parents appears to be that they are unlikely to remain in work of this hours' duration for a substantial period of time. Kasparova *et al.* (2003), as well as suggesting positive impacts of mini-jobs for moving into work found that, of lone parents who

were working one to 15 hours a week in 1999, while 54 per cent moved into longer hours' work, 25 per cent left employment. Barnes *et al.* (2005) also identified mini-jobs as the least stable work status, with only 40 per cent of lone parents remaining in a mini-job 12 months later. At 24 months, while 43 per cent of lone mothers who had been working in mini-jobs had moved into work of 16 hours or more, 25 per cent were not working and only 32 per cent remained in work of one to 15 hours (see Table 5).

Table 5 Lone mothers' working hours transitions at 24 months

Starting work status	Work status 24 months later				Total transitions (N)
	Working 30+ hours (%)	Working 16–29 hours (%)	Working 1–15 hours (%)	Not working (%)	
Working 30+ hours	81	13	1	5	255
Working 16–29 hours	22	63	3	12	280
Working 1–15 hours	10	33	32	25	57
Not working	5	11	6	79	681

Source: Families and Children Study, 2001–03 (adapted from Barnes *et al.*, 2005)

The instability for mini-jobs was much higher for lone parents than for couples. Kasparova *et al.* (2003) found that respondents in couples were more than twice as likely to remain in a job of one to 15 hours than lone parents who worked these hours in 1999 and Barnes *et al.* (2005) found that, at 24 months, 46 per cent of couple respondents remained in their mini-job (compared to 32 per cent of lone parents). Of course, instability in a mini-job could mean working longer hours (in the same or different job) as well as leaving the labour market.

More recent data from the British Household Panel Survey than that analysed in Iacovou and Berthoud (2000) shows similar instability for work of this type: Blundell *et al.* (2005) found that just 48 per cent of lone mothers (sic. the paper compares the labour market behaviour of different sorts of women) working one to 15 hours were still working one to 15 hours a year later; by contrast, 84 per cent of lone mothers working full-time (30+ hours) were working full-time a year later. This study also confirms that mini-jobs were (slightly) less stable than other part-time work for lone mothers.⁷ Blundell *et al.* (2005) also look explicitly at whether individuals had changed employer. Like Iacovou and Berthoud (2000), they show that, for lone mothers in mini-jobs, there is a close association between changing employers and increasing hours worked. They also show that lone mothers in mini-jobs exhibit greater stability in employer than lone mothers working longer hours. Only 17 per cent of lone mothers in mini-jobs changed employer from one year to the next, compared to 29 per cent of those in 'long part-time' work and 27 per cent of those working full-time.

Hales *et al.* (2007, forthcoming) also showed that couple mothers were more likely to use mini-jobs as a stable work status than lone parents. But the instability of mini-jobs for lone parents may reflect our starting point – that work of such hours is unlikely to bring significant financial gain. Faced with these conditions, and the hardship identified by Rafferty (2003), lone parents may well decide either to increase their hours or to give up work altogether. Couple respondents, however, are more likely to sustain work at these hours, which could suggest that these jobs may not be inherently unstable.

Conclusions

- Incentives for lone parents to work between four and 15 hours in mini-jobs are very poor compared to jobs of 16 or more hours, and are also very poor compared with those of mothers (or potential second earners) in couples to work in mini-jobs.
- The greater proportion of coupled mothers who work in mini-jobs than lone parents, alongside qualitative evidence, suggests that there may be among lone parents a demand for work of this type that is currently frustrated by the tax and benefit system.
- The evidence to suggest that working in mini-jobs may act as a stepping stone to longer hours' work is inconclusive. It is clear that lone parents in mini-jobs are less likely to be working similar hours a year later than lone parents initially working longer hours – which is a common measure of job 'instability' – but there is also evidence that lone parents in mini-jobs are less likely to change employer than other lone parents.

4 What might happen if mini-jobs were made financially more attractive? Evidence from previous policy changes

A number of policy changes, both in the UK and internationally, have attempted to change the financial incentives for lone parents to work at all and to work for different hours. Reforms in Britain have also encouraged work for fewer hours for other benefit claimants. This chapter briefly discusses those that are most relevant.

Lone parents' decisions about whether to participate in paid employment are not made on financial grounds alone. Duncan and Edwards (1997) have argued that it is 'gendered moral rationalities' – their own view of themselves as a mother or a worker based on their gender, social situation and other factors – that influence lone parents' decisions about how and whether to combine paid work and care work. Bell *et al.*'s (2005) analysis of lone mothers' decisions about work and childcare also found that they were influenced by a range of factors, including:

... their personal orientation to work, their attitudes towards parental and non parental childcare, and their views about different types of formal and informal non parental childcare.

However, it is undeniable (and understandable) that financial gains are an extremely important part of such decision making. Bell *et al.* (2005) found that this was often the paramount factor, and that:

... the power of potential financial benefit to act as an incentive to enter work applied to parents with a wide range of characteristics in terms of employment and educational history, work orientation and so on.

It is also important to note that the characteristics of lone parents out of work who may be affected by any policy change will alter over time. There is some evidence to suggest that mini-jobs may be more attractive than work of 16+ hours to lone parents who are more disadvantaged in the labour market, but this is not clear-cut. Different cohorts of lone parents could be affected very differently by different policy initiatives.

The UK: The 1992 Family Credit hours rule reform

In April 1992, the rules of Family Credit (a precursor to Working Tax Credit) were changed so that eligibility depended on 16 hours of paid work per week rather than the 24 hours that had been required up until that time. This change aligned the hours threshold for in-work benefits with the maximum number of hours that could be worked while claiming out-of-work benefits.¹ This provides an opportunity to ascertain the effect of changing hours rules on both employment rates and the changing distributions of hours worked, although it should be noted that the effect of a move from 24 to 16 hours may not be indicative of further reductions in qualifying hours and that changes in hours may reflect other factors (such as general economic environment or demographic composition).

Analysis of changes in hours worked using the Labour Force Survey conducted for this project suggests that an effect of the reform can be seen from 1993. The numbers working from eight to 15 hours and 24 to 29 hours declined, while those working 16 to 23 (particularly 16 and 20) hours increased (see Table 6). This suggests that the reduction in qualifying hours from 24 to 16 led to an important adjustment in hours worked – hours rules do matter.

Table 6 Distribution of hours (all lone parents)

Hours band	Year/survey					
	1990 (%)	1992 (%)	1993 (%)	1994 (%)	Spring 1995 (%)	Autumn 1995 (%)
None	57.3	58.9	58.6	57.1	56.6	56.7
1–7	3.6	4.0	4.0	3.9	3.6	3.8
8–15	5.4	4.6	4.5	4.4	4.0	3.6
15–23	4.6	4.1	6.2	7.2	7.7	8.2
24–29	3.9	4.4	3.6	3.6	3.8	3.8
30+	25.2	24.1	23.2	23.8	24.3	24.0

Source: authors' calculations based on household Labour Force Survey, various years.

However, there did not appear to be a large impact on the total number of hours worked by lone parents or the employment rate overall for this group (for further analysis see Appendix 3).

The UK: Working Families' Tax Credit

The clearest evidence for the potential of financial incentives to change the labour market participation of lone parents comes from the introduction and subsequent expansion of the Working Families' Tax Credit (WFTC) in the UK. This greatly

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increased the financial incentive for lone parents to work 16 or more hours (compared to not working). After surveying several econometric studies, Brewer and Browne (2006) conclude that its introduction raised lone parents' participation in the labour market by around five percentage points between 1999 and 2002. If the conclusion from assessment of reforms to Family Credit is that hours rules matter, that from WFTC is that financial incentives work.

Furthermore, the WFTC tended to increase rewards for working full-time by more than those for working part-time.² The impact of this change in the relative attraction of working part-time to full-time can be seen in Table 4 in Brewer *et al.* (2006b), which suggests a net 0.6 per cent of lone mothers (sic) switched from 16–29 hours to 30+ hours as a result of WFTC.

The UK: encouraging benefit claimants with health conditions or disabilities claimants to 'try out' employment

Under the 'permitted work' rules, introduced in 2002, claimants of incapacity-related benefits in the UK were allowed to work up to 16 hours a week and to earn up to £72 a week. If the claimant had not progressed to work of more than 16 hours following two 26-week periods of 'permitted work', this limit was reduced to £20 – that is, there was effectively a year-long time limit for the policy. Evaluation of this measure (Dewson *et al.*, 2004) supports the argument that work of less than 16 hours can act as a 'stepping-stone' into work at longer hours for some, concluding that:

... there is clear evidence that for a (not insignificant) minority of clients, the Permitted Work Rules have acted as a stepping stone to employment, and as a shift away from benefits.

Those who had taken advantage of the rules reported clear gains from work (in addition to the financial), including a greater sense of achievement, more involvement in society, improvement of work-related skills and greater self-confidence and motivation. There was, however, some concern that claimants would have to give up their employment at the end of the 52-week period (Dewson *et al.*, 2004).

The United States: tax credits with no hours rules and earnings disregards in welfare benefits

The US Earned Income Tax Credit (on which many see the WFTC as having been based) provides very strong evidence for the impact of financial incentives on lone

parents’ labour market participation (Holt, 2006), albeit in a country with different institutions, cultural beliefs and labour market from the UK. But the Earned Income Tax Credit (EITC) is worth attention because evidence suggests that its repeated expansions increased lone parents’ labour market participation, although it does not have an explicit hours of work condition like in-work support in the UK. Unlike the WFTC and its successor the Working Tax Credit, the EITC is conditional only on having positive earnings. It has a phase-in range, over which it acts like a proportional earnings subsidy up to a maximum, and then a phase-out range as earnings rise further.³

One of the few pieces of evidence – albeit inconclusive – on the impact of earnings disregards in welfare benefits on labour market behaviour comes from recent policy developments in the main US programme providing cash benefits to low-income families, Temporary Assistance for Needy Families (TANF). While the EITC is a federal programme, TANF rules and eligibility conditions are determined at state level, and vary widely. Most states have some form of earnings disregard under TANF, allowing families to work while receiving the benefit up until the point that their earnings reach a certain level, and variations in these earnings disregards across states have allowed researchers to assess the impact of increasing earnings disregards in out-of-work benefits on labour market participation. However, this work finds little evidence that large earnings disregards have had an independent impact on employment of low-skilled single mothers (Blank and Matsudaira, 2005). The authors suggest that this may be due to confusion among single mothers about what benefits they are receiving from whom and that ‘the very complexity of state earnings disregards makes them less effective as incentives’, but conclude that ‘our evidence suggests that the labour supply incentives of [higher earnings disregards] were small to non-existent’. On the other hand, other research has found that increased disregards in Unemployment Insurance increased the probability of recipients entering employment and reduced the duration of joblessness (McCall, 1996), although the research urged caution in the wider applicability of these findings.

Germany: an explicit aim of encouraging mini-jobs

Recent (2003) German reforms – known as the ‘mini-job reforms’ – provide an example of policy change specifically designed to encourage relatively low-paid work for less than full-time hours. Prior to these reforms, the first 325 euros a month earned in jobs of less than 15 hours were exempt from social security contributions and from taxation if the employee had no other income. The 2003 reforms abolished the maximum hours rule and increased the amount of earnings exempted from social security contributions to 400 euros. Above this level, the exemption from contributions

————— What might happen if mini-jobs were made financially more attractive?

is phased out up to earnings of 800 euros. Income tax below the 400 euro level was limited to a flat rate, with standard taxation beginning at 401 euros (Bargain *et al.*, 2006).

An evaluation of the reforms did not find a significant effect that employment rose for any group, although it did find evidence that the probability of having a second job increased for single men. Analysis before the reforms had been introduced, though, had predicted this sort of reaction. Where workers in mini-jobs remain entitled to social assistance, the impact of the reforms is negligible because social assistance fell by almost as much as the savings (to the employee) in tax and social insurance (Bargain *et al.*, 2006; Caliendo and Wrolich, 2006) – note that these reforms were not targeted at lone parents who traditionally have higher rates of employment in Germany than mothers in couples. This work also suggested that the effect for secondary earners would be to increase the incentive to take up work for those not employed and to reduce hours to the 400 euro threshold for those who were (Caliendo and Wrolich, 2006), to take advantage of the exemption from income tax.

Although it is still relatively soon after the reforms to be comprehensive, the lesson from these changes may be that cuts to income tax and social insurance for the low-earning individuals are much less effective at encouraging low-skilled individuals to leave welfare for work than more targeted measures.

Conclusions

- Analysis of a reform to Family Credit system in 1992 suggests that hours rules do affect lone parents' labour market behaviour.
- Evidence from the UK and the US shows that financial incentives can succeed in encouraging lone mothers to take up employment, but these incentives must be understood. Increased earnings disregards may not be the clearest way to provide increased incentives for entering employment.
- However, previous experience of increased disregards for claimants of incapacity-related benefits suggests that these do have the potential to help claimants to move into longer hours' work and that work of this hours duration can bring significant benefits.
- Evidence from reforms in Germany suggests that careful attention must be paid to the interaction of 'make work pay' policies with other parts of the system of tax and social security that may impact on work incentives.

5 Policy options to encourage mini-jobs

This chapter sets out a number of changes to benefits and tax credits that would make mini-jobs more financially appealing.

Using a model of lone parents' labour supply behaviour, we predict the labour supply response to these changes and the likely cost to Government. The main aim of using a model of lone parents' labour supply is to estimate not only by how much such policies could increase the proportion of lone parents doing any form of paid work but also to what extent making mini-jobs more appealing would encourage lone parents already in employment to work fewer hours – something that might be viewed as a drawback of these policies.

What options are there?

Chapter 3 showed that the poor incentives to do mini-jobs arise from the pound-for-pound withdrawal of Income Support once weekly earnings exceed £20 and while hours worked are below 16. This contrasts sharply with the strong incentives to work 16 or more hours, where, for lone parents, the basic entitlement to WTC is higher than the adult element of IS, and the effective earnings disregard in WTC is in excess of £100 a week and so the lone parent would be entitled to the full amount of WTC. So the current system combines very poor incentives to do four to 15 hours' work, but a dramatic change at 16 hours.

There are two obvious ways in which the financial incentives to work in jobs of less than 16 hours a week could be strengthened:

- granting entitlement to WTC to people who work fewer than 16 hours a week
- increasing the earnings disregard or reducing the withdrawal rate in Income Support (and other means-tested benefits).

We discuss these further below.

Lowering the hours rule within Working Tax Credit

The US system of the Earned Income Tax Credit provides a model for an in-work credit that is available at work of any hours. Removing an hours rule altogether would bring the tax credit system in line with the Government's formal definition of 'paid work', in seeing employment as comprised of work of any hours. However, the difficulties defining 'paid work' as all work of one hour or more are easily identified, both politically and in terms of the Government's ambition to encourage people to work longer hours. As a less extreme policy, then, the Government could instead reduce the hours rule and we therefore model an eight-hours rule.¹ This would preserve a 'cliff edge' in the budget constraint, because the gain to work for eight hours a week would be much higher than for seven hours a week, but it would make attaining this 'cliff' a little easier for lone parents.

Increasing the level of earnings disregards in means-tested benefits

Increasing earnings disregards within Income Support, Housing Benefit and Council Tax Benefit has recently gained support from a coalition of organisations led by Community Links. Barbour (2005) suggests a range of options, including raising the earnings disregard either to £30–50 a week, to the level of the first personal tax allowance (just over £100 a week), or to a certain number of hours – say 16 – multiplied by the national minimum wage.² All of these options would maintain a 'cliff edge' in the budget constraint at 16 hours, but would make it a lot smaller.

Many of the incentive effects of an increased earnings disregard in Income Support can be (roughly) achieved by reducing the withdrawal rate in Income Support from 100 per cent. Indeed, because reducing the withdrawal rate does more to encourage (relatively) high-earning mini-jobs than a rise in the disregard, its impact on incentives might be preferred. However, there is a large practical advantage to using increased earnings disregards. Under such a policy, fewer sources of income and fewer changes in circumstances need to be reported to the Department for Work and Pensions (DWP) and DWP needs to recalculate entitlement to IS fewer times than under a policy where earnings do reduce entitlement to IS but at a reduced rate than at present. In our view, this increased compliance and administrative costs of a reduced withdrawal rate over higher disregards outweigh the slight attraction it would have in terms of incentives.

Higher disregards or lower hours rules?

One difference between reducing the number of hours needed to qualify for WTC and increasing disregards in IS is that the former will improve incentives to work in long hours’ mini-jobs, and will not affect short hours’ mini-jobs, whereas increases in the income support earnings disregards do relatively more to encourage short hours’ mini-jobs than long hours’ ones. Furthermore, higher disregards are targeted more on those with low wages than a lower hours rule.

But a more important difference is in whether a lone parent in a mini-job would remain on Income Support or be (for the first time) entitled to claim Working Tax Credit. There will be advantages and disadvantages both for claimants and Government of each option (Appendix 4 discusses the practical differences between IS and WTC, assuming that entitlement to WTC becomes available for jobs of less than 16 hours a week).

Maintaining lone parents’ entitlement to Income Support has a number of attractions. Many studies have shown that lone parents worry about leaving the security of benefits in order to take up employment – most recently, Bell *et al.* (2005) and Finlayson and Marsh (1998) suggest that income security is as important a factor as income level in lone parents’ employment decisions. Furthermore, research suggests that social security benefits do indeed do a better job of stabilising the incomes of low-income claimants than tax credits (Hills *et al.*, 2006). Allowing lone parents to work for longer hours while claiming Income Support (and the passported benefits such as free school meals associated) may therefore provide a means of encouraging them to take gradual steps into the labour market while maintaining the reliable weekly income of benefits. This may be particularly important for the more disadvantaged lone parents that Rafferty (2003) identified as more likely to take up mini-jobs. Policy interventions aimed at increasing employment have, to date, worked least well for this group (Evans *et al.*, 2003; Ray *et al.*, 2007).

Entitlement to Income Support at present also comes with requirements to participate in Work Focused Interviews and other targeted interventions aimed at encouraging and assisting lone parents to work. Although, for those participating in a mini-job, these might have to be adapted, maintaining Jobcentre Plus contact with lone parents via the mechanism of Income Support would enable Government to encourage moves into work of longer hours. This should mitigate some of the concern that, given the security and extra generosity of Income Support described above, lone parents may choose to remain in mini-jobs rather than move into work of longer hours.

It should be noted that the Government has recently published a Green Paper proposing that, from 2008, lone parents whose youngest child is aged 12 should no longer be entitled to claim Income Support, but instead should claim Jobseeker's Allowance and that, from 2010, this should apply to lone parents whose youngest child is aged seven (DWP, 2007d). While claimants of Jobseeker's Allowance, unlike claimants of Income Support, are expected to demonstrate that they are actively seeking work, the rules around earnings for both benefits are the same and increased disregards could be offered under either regime. Given that, at present, these proposals are being consulted on, we continue to refer to Income Support rather than to Jobseeker's Allowance.

Higher earnings disregards would reduce the DWP's administration costs of managing those claimants who currently report earnings. Conversely, the incentives for those on Income Support to conceal earnings from Jobcentre Plus staff would fall.

On the other hand, the Government might be concerned that this policy would extend entitlement to Income Support up the earnings distribution and so the number of lone parents on benefits would rise, at least in the short run (although the average amount earned by lone parents on IS should also rise), as a result of this policy.

The advantages and disadvantages of lone parents in mini-jobs claiming Working Tax Credit rather than Income Support may be seen as the converse of these. In addition, though, claiming Working Tax Credit at eight hours would, arguably, mean that lone parents were recognisably 'in work' and would enable them to get over the hurdle of leaving benefits at jobs of lower hours and subsequently to increase their working hours without having to make this transition again. Furthermore, the additional help with childcare costs available through the Working Tax Credit would be a significant advantage for lone parents, as would the full disregard for child maintenance payments (although, in their proposals for child maintenance reform, the Government has committed to increase the amount of child maintenance that lone parents on benefits can keep).

On balance, the advantages to having lone parents maintain a claim for Income Support appear to outweigh those of having such people claim Working Tax Credit, although we examine the impact of both in this chapter.

Increasing which earning disregards?

At present, there are separate values for the earnings disregard in IS and the disregard in HB/CTB (for lone parents, the former is currently £20 and the latter £25) and, in principle, these can be changed independently of each other.

One option is therefore to increase the disregard in IS so that it is larger than that in HB/CTB. However, this could introduce a discontinuity in the budget constraint where marginal deduction rates exceed 100 per cent for people receiving HB or CTB. An example of this is shown in Figures 7 and 10. This discontinuity will occur at the point where entitlement to IS falls to zero.³ Such discontinuities – where an increase in hours worked or earnings lead to people being worse off overall – are highly undesirable. However, the Government has just announced a policy that produces exactly this effect. The new (income-based) Employment Support Allowance (ESA), due to replace Incapacity Benefit from 2008, will have an earnings disregard of £86 a week and receipt of any ESA will continue to passport people to full HB/CTB (DWP, 2007b). However, this disregard is time-limited for 12 months, meaning any adverse impacts can last no longer than a year. We therefore think that this is a plausible policy option for lone parents and discuss the option of time-limiting in the conclusion.

The other option is to increase the disregard in HB/CTB along with the earnings disregard in IS.⁴ Because entitlement of HB/CTB is not conditional on hours worked, an increase in the earnings disregard in HB/CTB will not only improve incentives to work in mini-jobs (compared to not working at all) but also increase incomes for lone parents working 16 or more hours and receiving HB/CTB; by contrast, an increase in the earnings disregard in IS cannot affect incomes of lone parents working 16 or more hours. Increasing earnings disregards in all three means-tested benefits is therefore a policy with scope to affect many more lone parents than increases in the IS disregard alone (this is quantified in the next section).

Increasing the HB/CTB earnings disregard would extend the reach of HB/CTB among lone parents working 16 or more hours and such a policy would have an impact only if lone parents realised that they would not lose eligibility for HB/CTB when they started to work 16 or more hours. The DWP publishes estimates of the take-up rate of HB and CTB (cited in Box 3 later in this chapter), but only for all lone parents; our own analysis of the FRS 2004–05 suggests take-up of HB among working lone parents is rather lower, at around two-thirds (details available on request). Recent qualitative research helps explain this, concluding that:

Customers in work, and likely to be eligible, but not claiming HB/CTB were commonly unaware that HB/CTB may be available to them. Some claimants were aware that HB/CTB can be claimed while working, but assumed they earned too much to be eligible ... [C]ustomers not in work and claiming HB/CTB generally had little awareness of in-work HB/CTB.

And:

Job Centre Plus staff said they had limited knowledge about HB/CTB, which included a lack of awareness about the earnings disregard and taper rate ... Staff felt that HB/CTB did not act as a work incentive as customers felt the HB/CTB application was problematic. Processing delays were raised as a key issue; staff felt customers were afraid of losing the security of having their full rent and council tax paid and staff therefore had experienced difficulties encouraging customers to move into work and claim in-work HB/CTB.

(Turley and Thomas, 2006, Summary)

In summary, although an increase in the earnings disregards in HB/CTB has impacts beyond improving incentives to work in mini-jobs, we include it in the list of policy options partly to avoid creating any unwelcome distortions in financial incentives, but also because its other impacts are arguably desirable in their own right. Lone parents eligible to receive HB/CTB currently face some of the weakest incentives to work 16 or more hours as well as weak incentives to work in mini-jobs, and the Government is presumably keen to encourage lone parents to take up jobs of more than, as well as fewer than, 16 hours a week.

Moreover, Hales *et al.*'s (2007, forthcoming) recent analysis suggests that increasing participation in mini-jobs among social and private renters will be key to the success of any attempts to raise lone parents' participation in the labour market by using work of less than 16 hours:

The implication ... for potentially increasing the participation in work of lone parents by encouraging mini jobs among them is fairly simple. The key factor is whether mini jobs can be made much more worthwhile for lone parents in social rented accommodation.

(Hales *et al.*, 2007, forthcoming)

However, achieving the full potential of this policy will require the Government to raise awareness among lone parents and Jobcentre Plus advisers of the role of HB/CTB as in-work benefits (as recommended in Harker, 2006).

The impact of policies to improve mini-jobs if no one changed their working patterns

Following the discussion above, this report considers the impact of the following policy changes to improve the financial incentives for lone parents to work in jobs of less than 16 hours:

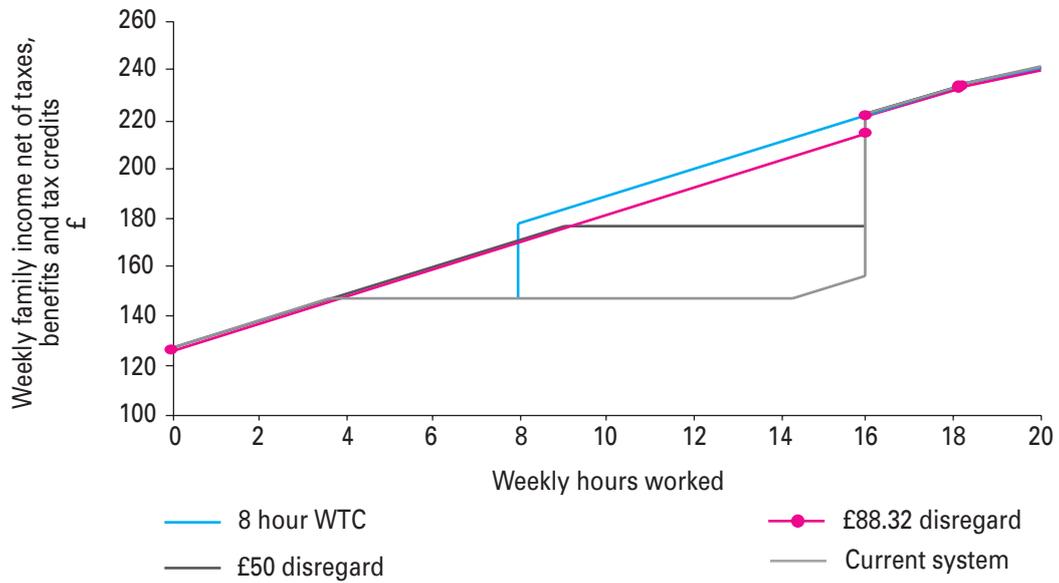
- a reduction of the hours of work required to claim Working Tax Credit from 16 to eight
- an increase in the earnings disregard in Income Support for lone parents from £20 to £50
- an increase in the earnings disregard in Income Support for lone parents from £20 to 16 times the national minimum wage (£5.52 from October 2007, giving a disregard of £88.32)
- an increase in the earnings disregards in Income Support, Housing Benefit and Council Tax Benefit to £50
- an increase in the earnings disregards in Income Support, Housing Benefit and Council Tax Benefit to 16 times the national minimum wage (£5.52 from October 2007, giving a disregard of £88.32).

In this section, we compare these policies in detail. First, we show their impact on budget constraints of specimen lone-parent families and then we estimate their cost to the Government if labour supply did not change as a result of these policies.

Impact on lone parents' budget constraints

Figures 6–11 show the impact of these five policies on budget constraints of specimen lone-parent families. They show the impact on someone earning the minimum wage and someone earning twice the minimum wage, and we show the impact with and without entitlement to HB/CTB (for a lone parent not eligible to HB/CTB, there is no difference between an increase in the earnings disregard in IS and an equal rise in the disregards in IS, HB and CTB, and so we do not show the effect of the latter policies).

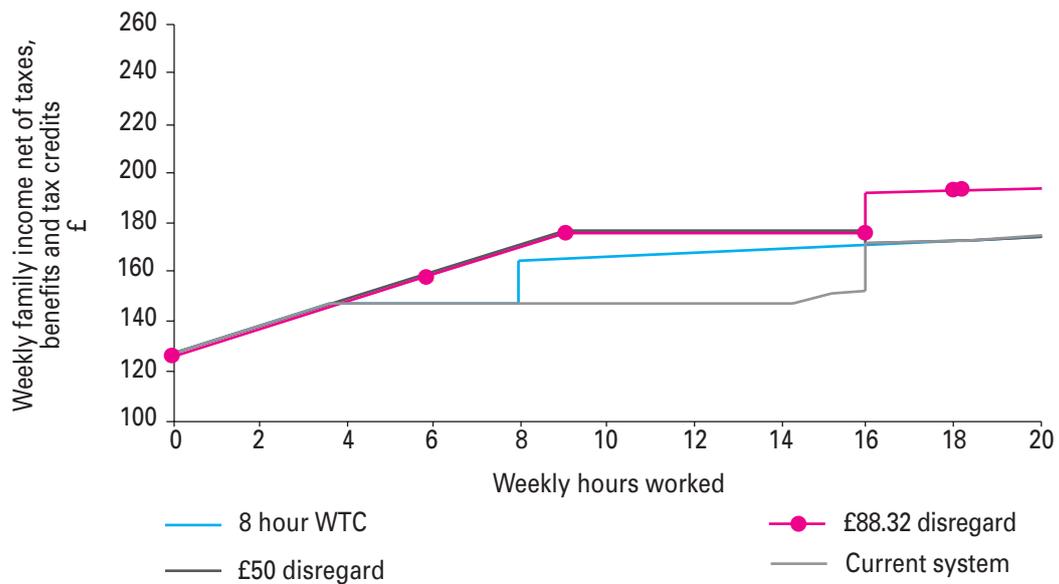
Figure 6 Lone parent, one child, minimum wage, rent free and CT free



Note: assumes lone parent earns £5.52 an hour and has one child aged at least one year. No rent, no CT. No childcare costs.

Source: authors' calculations using TAXBEN.

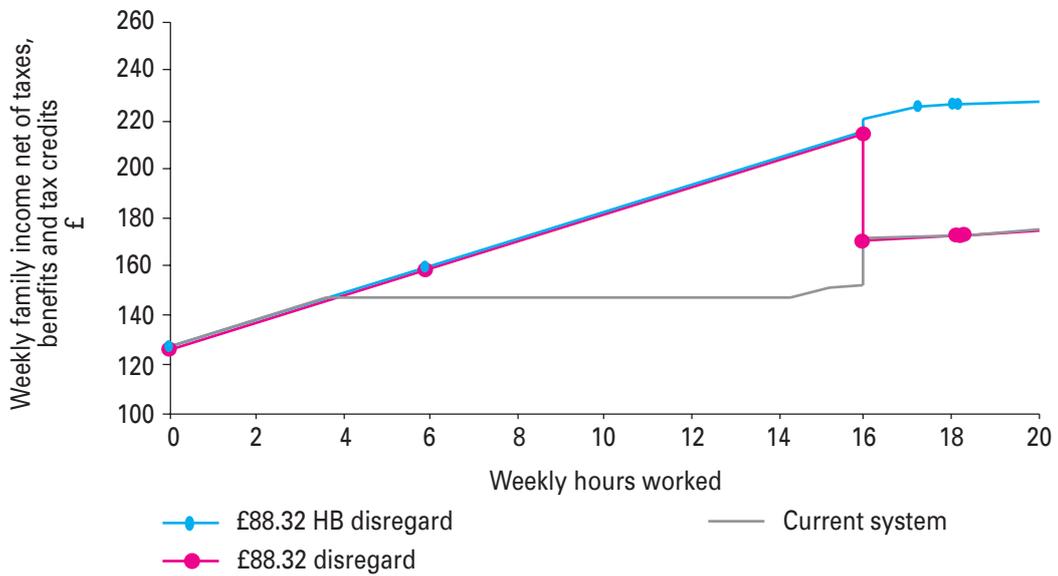
Figure 7 Lone parent, one child, £5.52 an hour, with rent and CT (and HB and CTB). Incomes measured after CT and rent



Note: assumes lone parent earns £5.50 an hour and has one child aged at least one year. Rent £70, CT £15.86 (2006–07, Band C, East Midlands average). No childcare costs.

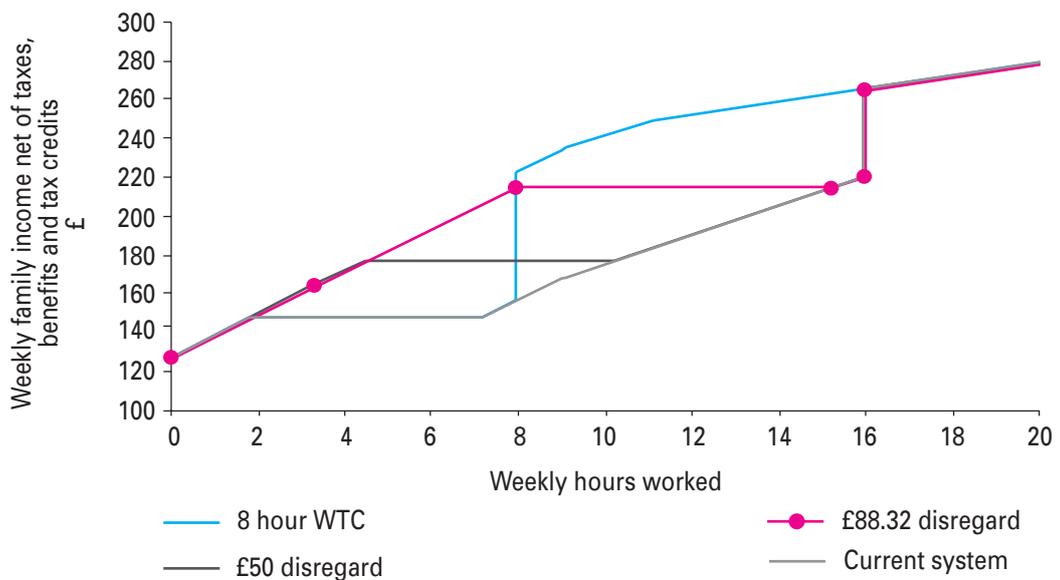
Source: authors' calculations using TAXBEN.

Figure 8 Lone parent, one child, £5.52 an hour, with rent and CT (and HB and CTB). Incomes measured after CT and rent



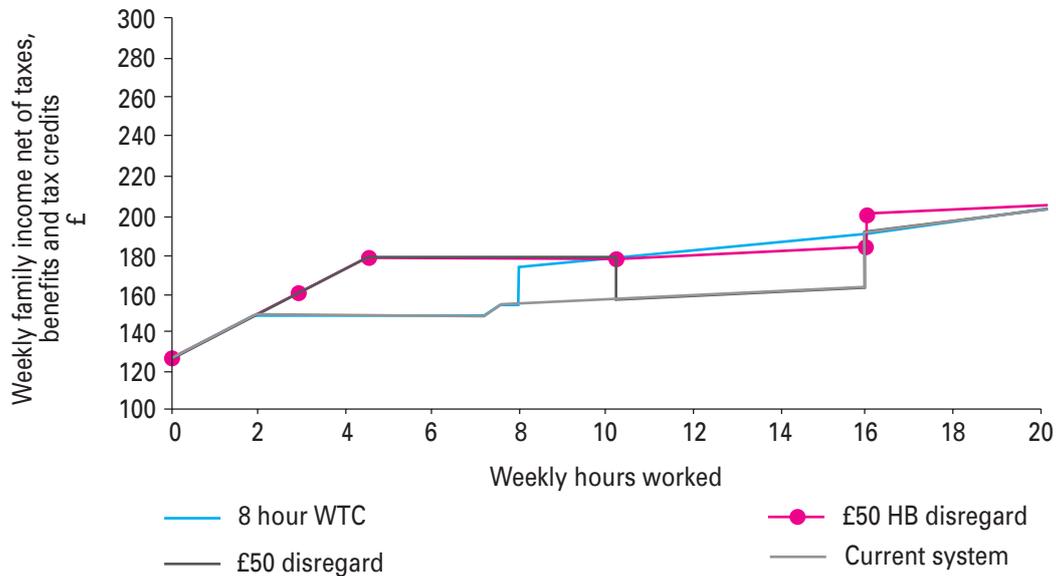
Note: assumes lone parent earns £5.50 an hour and has one child aged at least one year. Rent £70, CT £15.86 (2006–07, Band C, East Midlands average). No childcare costs.
 Source: authors' calculations using TAXBEN.

Figure 9 Lone parent, one child, twice minimum wage, rent free and CT free



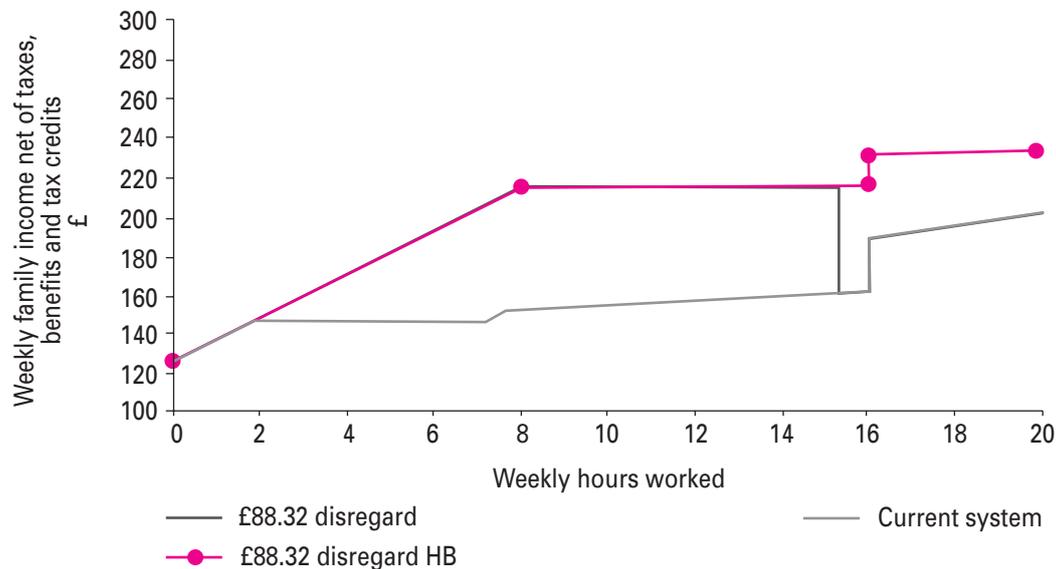
Note: assumes lone parent earns £8 an hour and has one child aged at least one year. No rent, no CT. No childcare costs.
 Source: authors' calculations using TAXBEN.

Figure 10 Lone parent, one child, twice minimum wage, with rent and CT (and HB and CTB). Incomes measured after CT and rent



Note: assumes lone parent earns £8 an hour and has one child aged at least one year. Rent £70, CT £15.86 (2006–07, Band C, East Midlands average). No childcare costs.
 Source: authors' calculations using TAXBEN.

Figure 11 Lone parent, one child, twice minimum wage, with rent and CT (and HB and CTB). Incomes measured after CT and rent



Note: assumes lone parent earns £8 an hour and has one child aged at least one year. Rent £70, CT £15.86 (2006–07, Band C, East Midlands average). No childcare costs.
 Source: authors' calculations using TAXBEN.

Figures 6–11 highlight the following.

- Increases in IS earnings disregards do relatively more to encourage ‘short hours’ mini-jobs, whereas the eight-hour rule in WTC (by definition) encourages only jobs of eight or more hours (all figures).
- The extent to which mini-jobs can be encouraged for lone parents entitled to HB/CTB is limited by the fact that the incentive to work 16 or more hours is relatively weak for these lone parents (Figure 7).
- Increasing the earnings disregard in IS only to £88.32 would create a substantial fall in the budget constraint at 16 hours for lone parents entitled to HB/CTB, when income would fall by £44 as weekly hours worked rose from 15 to 16.
- For similar reasons, increasing the earnings disregard in IS, HB and CTB to £88.32 would substantially increase the gain to working 16 or more hours (compared to not working) for lone parents entitled to HB/CTB (Figures 7, 8, 10, 11).

Estimated cost of the reforms

Table 7 shows the estimated cost of these reforms under the unrealistic assumption that no one changed their labour supply behaviour (the reforms are assumed to take effect in April 2008).

Table 7 Estimated cost of some reforms to promote mini-jobs if no one changed their behaviour (on April 2008 tax and benefit system)

	Cost
8-hour rule for WTC	£69m (£190m if applied to all families with children)
IS earnings disregard equal to £50	£65m ^a
IS, HB and CTB earnings disregard equal to £50	£275m
IS earnings disregard equal to £88.32 (16 times minimum wage)	£215m ^a
IS, HB and CTB earnings disregard equal to £88.32 (16 times minimum wage)	£695m

Notes: today’s prices, so need inflating a bit to get to 2008–09 prices.

a Assuming other groups who can qualify for the £20 earnings disregard are not entitled to the higher disregard.

Source: authors’ calculations using FRS 2005/6 and TAXBEN.

Table 7 shows that increasing earnings disregards in both IS and HB/CTB is substantially more costly than increasing them solely in IS. This is to be expected, given that a higher earnings disregard extends HB/CTB up the earnings distribution; unlike a rise in the earnings disregard in IS, this impact is not limited to those working in mini-jobs.

Estimating the labour supply responses to some of these reforms

This section attempts to predict how lone parents' work patterns would change if any of these policies were introduced. This also allows us to present more accurate estimates of the cost and a fuller distributional analysis.

The modelling makes use of a statistical model of lone mothers' labour supply behaviour to assess the likely response to policies that increase the gain to work in mini-jobs.⁵ This has previously been used successfully to predict the response of lone mothers to the introduction of WFTC. Box 3 gives some more detail on the model.

Box 3 The model of lone mothers' labour supply

The premise of the model is that lone mothers trade off the extra money they receive from working (compared with not) against the undesirability of working (compared with staying at home). The model does not pretend that considerations other than finances are unimportant, but instead opts not to model those other considerations explicitly.

The model is estimated on repeated cross-sections of the Family Resources Survey, from 1995–96 to 2004–05, with each cross-section providing data on some 1,600 to 1,800 lone parents.

The model attempts to predict the labour supply response to hypothetical financial work incentives given the known response to past financial work incentives. Because hourly wages, and entitlements to HB and CTB, all vary considerably between lone mothers, financial work incentives vary considerably across lone mothers at any point in time. Furthermore, there have been considerable changes to taxes, benefits and tax credits between 1995–96 and

(Continued)

Box 3 The model of lone mothers' labour supply – *Continued*

2004–05, and these mean that financial work incentives vary considerably between otherwise similar lone mothers observed in different years.

The model is a static model (in other words, there is no account of dynamic issues or ageing) where lone mothers are assumed to choose either not to work or to work in one of five bands of hours a week: one to 15, 16–23, 24–29, 30–37, 38+. The key economic assumptions are that lone mothers face a fixed hourly wage, regardless of how many hours they work, that they can find jobs at any hours given that hourly wage and that their spending on childcare is determined by their family structure and hours of work, not on the price of childcare nor presence of tax subsidies. The model assumes that lone mothers receive all the means-tested benefits and tax credits to which they are entitled. This is a reasonably accurate assumption. DWP estimates that lone parents' take-up rate of IS is 91–100 per cent, of HB is 93–100 per cent and of CTB is 87–95 per cent (DWP, 2006b) and HM Revenue & Customs (HMRC) estimates that in-work lone parents' take-up rate of CTC and WTC (combined) is 89–96 per cent (HMRC, 2007) (all figures for 2004–05). But, given that take-up of means-tested benefits and tax credits is never complete, the model may overstate the labour supply response – whether positive or negative – to increases in means-tested benefits and tax credits.

To simulate the impact to policy changes, a draw is made from all of the error distributions (i.e. all of the uncertainty) in the model and the preferred job type is calculated for each lone parent before and after a policy change. This process is then repeated many times (to produce an average over the uncertainty/errors). More details are given in Brewer *et al.* (2005).

The model is described in more detail in Brewer *et al.* (2005) and was used to assess the impact of WFTC in Brewer *et al.* (2005, 2006b). For the purpose of this report, the model was re-estimated using additional data from 2003–04 to 2004–05; this led to small changes in the coefficients compared to those reported in Brewer *et al.* (2005), but the predicted impact of WFTC was hardly altered (details on request).

Table 8 shows the estimated labour supply response to these reforms by reporting the estimated change in the proportion of lone parents in work (which always rises), the proportion doing mini-jobs (which always rises) and the proportion doing part-time (16–29 hours a week) or full-time work (30+ hours a week) (which sometimes rise and sometimes fall). It also shows the impact on average hours worked across all lone parents (including non-working lone parents) and across working lone parents.

Table 8 The impact of various policies to encourage mini-jobs on labour supply

	Change in lone parents in work	Change in lone parents in mini-jobs, (ppts)	Change in lone parents in part-time jobs (ppts)	Change in lone parents in full-time jobs (ppts)	Change in average hours worked	Change in average hours worked, workers only
8-hour WTC	+1.0	+2.10	-0.54	-0.57	-0.1	-0.8
£50 disregard in IS	+1.3	+2.34	-0.51	-0.52	-0.1	-0.8
£50 disregard in IS, HB and CTB	+2.3	+2.19	+0.66	-0.56	+0.1	-1.0
£88.32 disregard in IS	+2.3	+4.38	-1.01	-1.14	-0.2	-1.6
£88.32 disregard in IS, HB and CTB	+5.4	+3.55	+2.71	-0.86	+0.6	-1.6

Note: in the baseline system, the model predicts that 51.9 per cent would work – 4.6 per cent in mini-jobs, 22.1 per cent in part-time and 25.2 per cent in full-time. The predicted mean hours worked are 14.6 hours a week (28.2 hours a week among workers).

Source: authors' calculations based on model, data and assumptions set out in this chapter.

Table 8 shows the following.

- All policies increase the proportion of lone parents in mini-jobs and all policies increase the proportion of lone parents in work.
- The eight-hour in WTC rule has the smallest impact (one percentage point more lone parents in work, or around 20,000 lone parents) and the large earnings disregard in all means-tested benefits has the largest impact, albeit assuming full take-up of HB and CTB (5.4 percentage points more lone parents in work, or around 100,000 lone parents).
- There would be negative labour supply responses to an eight-hour rule in WTC and increases in the IS-only earnings disregards. Table 8 estimates that these policies would lead to fewer lone parents working 16 or more hours a week. Although employment would rise, total labour supply – as measured by total hours worked by lone parents – would fall in response to these three policies, because those lone parents in work would be working fewer hours.

- There would also be some negative labour supply responses to the two policies that increase disregards in IS, HB and CTB. Table 8 shows that we estimate there would be fewer lone parents working full-time as a result of these policies. But this negative response is outweighed by the positive labour supply responses, so that, on balance, these two policies are estimated to increase both lone-parent employment and total labour supply, as measured by total hours worked by lone parents.

Although the full results are not shown here, all reforms would do (relatively) more to increase employment among large families and the increase in the earnings disregard to 16 times the minimum wage in all means-tested benefits would have a particularly large impact on lone parents in London, presumably because of high housing costs and council tax.

It must be remembered that, although the underlying economic model is static, lone parents’ labour market behaviour is dynamic, and driven to a large extent by child-rearing and childcaring responsibilities, which naturally change over time. The general pattern is for the majority of women with children to stop work when they have their first child, but eventually to return to work.⁶ When the model predicts that a policy increases the number in work, this should be thought of as an accelerated return to work for some lone parents; when the model suggests that some mothers would cut their hours, this could equally well mean in practice that some mothers return to work at jobs with fewer hours than they would do in the absence of these reforms, or return to work a little later. It need not literally mean that some mothers actually cut their hours.

It should also be remembered that the model cannot take account of possible preferences for claiming one type of financial support over another, as discussed above.

Table 9 shows estimates of the cost of the reforms, taking into account lone parents’ likely labour supply responses. It also shows an estimate of how the reforms would affect lone parents’ total earnings and the average income of lone parents.

Table 9 The estimated cost of various policies to encourage mini-jobs, allowing for changes in labour supply

	Cost (before behavioural changes) (£m) (A)	Cost (after behavioural changes) (£m) (B)	Total change in lone parents' earnings (£m) (C)	Average change in lone parents' income (£) (D)	Total change in lone parents' income (£m) (E) = (D) * 52 * 1.932m	Ratio of rise in income to cost to Government = (E)/(C)
8-hour WTC	85	175	-118	+0.58	58	0.33
£50 disregard in IS	103	182	-58	+1.23	123	0.68
£50 disregard in IS, HB and CTB	269	278	71	+3.48	349	1.25
£88.32 disregard in IS	169	435	-175	+2.60	261	0.60
£88.32 disregard in IS, HB and CTB	735	791	317	+11.05	1,108	1.40

Source: authors' calculations based on model, data and assumptions set out in this chapter.

In all cases, accounting for labour supply responses increases the estimated cost of the reforms, although by very little for the two reforms that increase earnings disregards in HB/CTB. Three of the reforms – an eight-hour rule in WTC and higher disregards in IS only – would reduce the average amount of earned income. Accordingly, for those three reforms, the total income of lone parents rises by less than the cost of the reform to the Government. This is because, on average, lone parents are responding to the reform by working less (and presumably spending more time caring for their children). On the other hand, the two reforms that increase disregards in HB/CTB would lead to higher earnings on average across all lone parents and so the rise in lone parents' incomes would exceed the cost of the reforms to the Government. On average, then, lone parents are predicted to respond to these two reforms by working and earning more.

A simple measure of the efficiency of these reforms in redistributing income to lone parents can be seen in the right-hand column of Table 9, which measures the ratio of the increase in lone parents' income to the cost to Government. On this measure (alone), the policies that increase earnings disregards in all means-tested benefits seem more efficient than those that increase earnings disregards just in IS, which in turn are more efficient than an eight-hour rule for WTC. However, this simple measure fails to take account of a number of factors, such as any distributional concerns the Government might have and the fact that some of these reforms are permitting lone parents to choose to work fewer hours, presumably because they feel that will give them a better work–life (or work–caring) balance.

Figures 12 and 13 therefore estimate the distributional impact of these policies, taking into account any resulting changes in labour supply behaviour, by showing the average percentage change in income in ten groups of lone parents, ranked by their net income. Figure 12 shows the impact of an eight-hour rule for WTC and of increases to £50 in the earnings disregards in IS only or in all means-tested benefits; Figure 13 shows the impact of the increase in the earnings disregard to 16 times the minimum wage, either in IS or in all means-tested benefits (note that the vertical scale is different in the two figures, because these policies vary considerably in size).

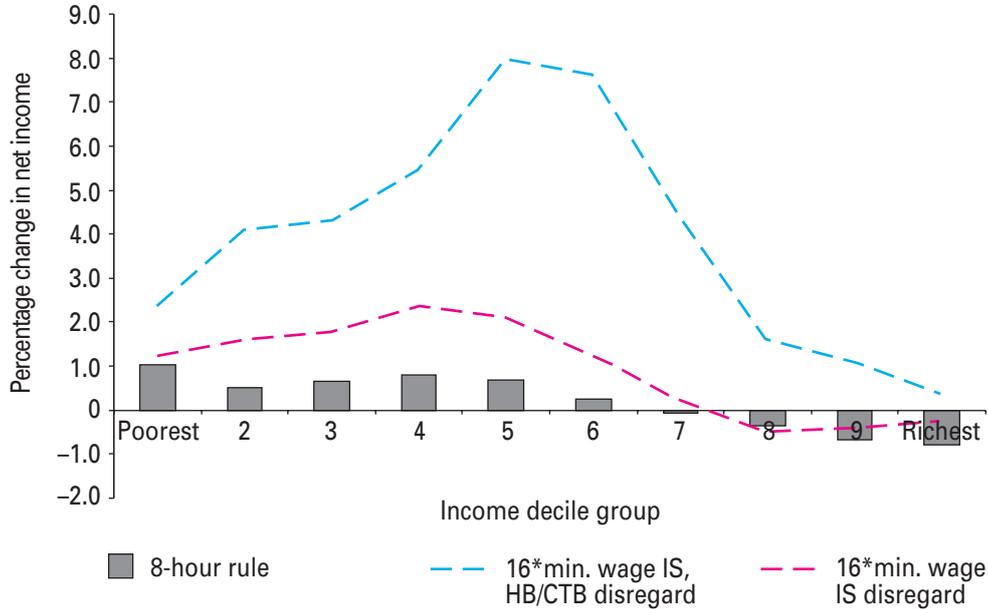
Figure 12 The distributional impact of an eight-hour rule for WTC and £50 earnings disregards in means-tested benefits among lone mothers, allowing for changes in labour supply



Note: income decile groups are derived by dividing all lone-mother families into ten equal-sized groups according to income adjusted for family size using the modified OECD equivalence scale. Decile group 1 contains the poorest tenth of the population, decile group 2 the second poorest and so on up to decile group 10, which contains the richest tenth.

Source: authors' calculations based on sample and methods described in text.

Figure 13 The distributional impact of an eight-hour rule for WTC and earnings disregards of 16 times the minimum wage in means-tested benefits among lone mothers, allowing for changes in labour supply



Note: income decile groups are derived by dividing all lone mothers into ten equal-sized groups according to income adjusted for household size using the modified OECD equivalence scale. Decile group 1 contains the poorest tenth of the population, decile group 2 the second poorest and so on up to decile group 10, which contains the richest tenth.

Source: authors' calculations based on sample and methods described in text.

Figures 12 and 13 show that all five reforms are broadly redistributive within lone mothers, in the sense that the bottom five deciles are predicted to see net income rise by more in proportional terms than the top five deciles, on average. Three policies – an eight-hour rule for WTC and increases in the earnings disregard in IS only can lead to falls in income among well-off lone parents, as they reduce their hours of work to take advantage of more generous benefits or tax credits while doing mini-jobs. Increases in earnings disregards tend to raise incomes more of lone mothers in deciles 3–5 (if in IS only) or in 4–6 than of those in the very poorest deciles. This is because the very poorest lone mothers will be out of work and so will gain from these policies only if they move into work as a result, whereas deciles 3–6 will also contain some lone mothers working in mini-jobs whose income will necessarily rise under these policies.

It is beyond the scope of this project to predict what impact these measures might have on child poverty,⁷ but, given that 35 per cent of lone parents were in relative poverty in 2005–06 (with a relative poverty line of 60 per cent median income measured before housing costs [BHC], modified OECD equivalence scale, in line

with the Government’s target for 2010–11), the poverty line can be thought of as lying in the fourth income decile. Therefore, average gains in deciles 1–3 are affecting lone parents in relative poverty, average gains in deciles 5–10 are affecting lone parents not in relative poverty and average gains in decile 4 are affecting lone parents very close to the relative poverty line.

One drawback of this kind of analysis is that it shows only changes in income and does not show changes in hours worked. Figures 6 and 7 earlier in this chapter show some of these policies lead to falls in income, on average, for relatively well-off lone mothers. This is in line with the results in Table 8 above, which showed that some of these policies are predicted to lead some lone mothers to work less and this can lead to falls in net income. But, even with the reduction in labour supply and net income, such lone parents are better off in a general sense than they would be if the reform had not been implemented. Essentially, these reforms to encourage mini-jobs allow some lone parents to reach a given standard of living through working in a mini-job that previously could be obtained only through a job of 16 or more hours.

Summary

- Two ways to make mini-jobs more attractive are to increase earnings disregards in means-tested benefits or reduce the number of hours required to qualify for WTC. We argue that, on balance, both the Government and lone parents might prefer lone parents working in mini-jobs to remain on Income Support than receive tax credits.
- It is possible to increase earnings disregards in IS without raising their equivalent in HB/CTB – as the Government proposes to do with the new ESA – but doing so would lead to some people being worse off at some point if they worked more hours or increased their earnings.
- Increases in earnings disregards in HB and CTB at the same time as those in IS would increase incentives to work in mini-jobs without introducing new and unwanted cliff edges in the system. Such a policy would encourage all lone parents to work in mini-jobs, but it would also encourage lone parents entitled to HB/CTB to work in jobs of 16 or more hours as well. Given that such lone parents currently face very weak incentives to work in jobs of 16 or more hours, this ‘side effect’ is arguably highly desirable in its own right. To succeed fully, though, any policy that increases entitlements to HB/CTB among working families needs to be accompanied by a greater awareness that HB/CTB can be claimed in work and greater efforts to speed up administration of HB/CTB.

- The scale of the potential reforms considered in this chapter varies considerably. Even allowing for a change in labour supply, an eight-hour rule in WTC for lone parents is estimated to cost £175m a year, but a large disregard in all means-tested benefits for lone parents is estimated to cost £780m.
- All policies considered in this chapter are estimated to increase the proportion of lone parents in work and the proportion working in mini-jobs. The eight hour in WTC rule has the smallest impact (one percentage point more lone parents in work, or around 20,000 lone parents), and the large earnings disregards in all means-tested benefits has the largest impact, albeit assuming full take-up of HB and CTB (5.4 percentage point more lone parents in work, or around 100,000 lone parents).
- All the policies would allow some lone parents to work fewer hours. For the eight-hour rule in WTC and the two policies that increase earnings disregards only in IS, this negative labour supply response is greater than the positive response of non-working lone parents moving into mini-jobs, and so total labour supply declines even though employment rises for this group. However, for the two policies that increase disregards in all means-tested benefits, the positive labour supply response – including more lone parents working in jobs of 16–29 hours – is more important than the small negative labour supply response.

6 Conclusions and policy implications

This project set out to examine the potential of reforms that would make mini-jobs more attractive, with the aim of increasing the lone-parent employment rate, and consequently the high rate of relative poverty among this group, and allowing lone parents to make choices about how to combine work and family life on a more similar basis to women in couples with children. The report shows that the financial incentives for lone parents to work in such jobs at present are poor, that there may be demand for these jobs and that policy reforms would, indeed, increase the number of lone parents in employment.

The report suggested three types of reforms to improve the incentives for lone parents to take up work of less than 16 hours:

- a decrease in the qualifying hours for Working Tax Credit
- an increase in the Income Support disregard alone
- an increase in the Income Support disregard, accompanied by an increase in the disregard within Housing Benefit and Council Tax Benefit.

Of these, the reform that appears most effective at increasing both employment rates and lone parents' income is the third – increased disregards in both Income Support and Housing Benefit and Council Tax Benefit. The modelling suggests that, were disregards to be set at 16 times the level of the national minimum wage (NMW), they would have the potential to increase the share of lone parents in employment by 5.4 percentage points (although we may overestimate this effect because of the problems with claiming Housing Benefit while in work discussed in Chapter 5). The reform is also estimated to increase lone parents' income – by £1,108 million, at a cost of £791 million; that is, for every £1 spent by the Government, the income of lone parents is increased by £1.40.

The cost of this reform is substantial and a smaller increase in the disregard would reduce this – at the same time as reducing the impacts of the policy. However, the application of a £50 earnings disregard in all three means-tested benefits, at a cost of £278 million, would still lead to an estimated increase in the number of lone parents in work of 2.3 percentage points. Substantially changing disregards within Housing Benefit and Council Tax Benefit would represent a significant shift of policy, but setting these reforms in context suggests that the modelled results are relatively impressive. Previous research estimated the WFTC increased employment among

lone parents by a similar 5.1 percentage points, but at three times the cost of this reform (Brewer *et al.*, 2006).

Moreover, recent analysis suggests that increasing participation in mini-jobs among those eligible for Housing Benefit will be key to the success of any attempts to raise lone mothers' participation in the labour market by using work of less than 16 hours (Hales, 2007, forthcoming).

Research has estimated that, on current policies, the Government will fall short of its 2010 target to have 70 per cent of lone parents in employment by five percentage points (Gregg *et al.*, 2006). The Government has recently suggested that increasing employment among lone parents will be vital to tackling child poverty and that one way to do this would be to increase work search conditions on those with children aged seven and upwards. These reforms could represent an alternative or additional strategy to meet the current shortfall for the target – or, in the case of an increase in these disregards to 16 times the national minimum wage, even to go beyond the target. All the reforms modelled would be specifically of help to large families and this particular reform would also be of help to lone parents in London, two groups with especially low employment rates.

The reform that has the next most significant impact on the number of lone parents in employment is an increase in the Income Support disregard alone. If increased to 16 times the NMW, this would decrease the number of non-working lone parents by 2.3 percentage points and, if increased to £50, by 1.3. This policy, however, because of the discontinuity that arises from the passport to full Housing Benefit, does have a significant negative effect on lone parents' labour supply, with a 16 times NMW disregard reducing the proportion of those working in part-time jobs by one percentage point and those in full-time jobs by 1.1, with these lone parents seeing consequent reductions in their income. This policy would also create a new and unwelcome distortion between the incentives to work below and above 16 hours. One way of mitigating this impact would be to time-limit the application of the policy, to, for example, one year. With this approach maintaining lone parents' entitlement to Income Support, and the attendant obligations to attend interviews at the Jobcentre, these interviews (which would have to be tailored specifically to those in paid work) could be used to help claimants to progress to work at longer hours, building on the confidence and experience gained while in employment. This obviously places some faith in the contention that mini-jobs can act as a stepping stone to longer hours' work, about which the evidence is not conclusive. But the experience of the permitted work rules for those on incapacity-related benefits is highly suggestive and has been sufficient for the DWP to extend a disregard of £86 a week to those claiming the new Employment and Support Allowance to be introduced in 2008, available for one year

(DWP, 2007b). The DWP is also operating a time-limited in-work benefit in areas that cover a third of lone parents on Income Support.¹ In this context, a similar time-limited policy for lone parents would look like a sensible alignment of benefit rules.

Implementation of this measure would reflect most straightforwardly the Government's 'welfare to work' agenda, where the aim of policy is, ultimately, to move claimants into work of more than 16 hours, rather than a broader agenda to increase the choices available to lone parents around their hours of work (or to align these with those of mothers in couples) and to increase lone parents' income, whatever their hours of work.

The final type of policy reform, a cut in the hours necessary to claim Working Tax Credit, appears to have the least impact, but at a relatively modest cost of £175 million, and increases the number of lone parents in employment by one percentage point. For a government concerned to reduce the number of claimants of benefits, however, this may be a more attractive policy.

All these reforms would increase the employment rate of lone parents and allow them to make the sort of choices about how to combine work and family life available to mothers in couples. Distributional analysis also shows that the reforms would be of most benefit to lone parents in the lower part of the income distribution, with the greatest impacts on those close to the poverty line. Although the analysis here cannot predict exact impacts on child poverty, this suggests that these reforms could help to tackle the high poverty rates among this group. However, two concerns about these policy measures are, first, that all of them could reduce the number of hours worked by some lone parents and, second, that mini-jobs may not be a sustainable form of work for lone parents.

The reduction in labour supply simply reflects lone parents' increased ability under these policies to make choices about how to combine their working and caring responsibilities within a set of constraints that looks more similar to that for many mothers in couples. And such lone parents are better off in a general sense than they would have been if the reform had not been implemented. Essentially, these reforms to encourage mini-jobs allow some lone parents to reach a given standard of living through working in a mini-job that previously they could only have obtained through a job of 16 or more hours. The Government, at any rate, given that it has chosen to measure the lone-parent employment rate as all work of over one hour a week, clearly places a value on lone parents doing any paid work, regardless of the number of hours worked. And the most effective reform, the large increase in Housing Benefit, Council Tax Benefit and Income Support disregards, also has the least negative impact on labour supply for those in employment, as it increases the

incentives to work not only in mini-jobs but also part-time, leading to a reduction in those working full-time hours of less than a percentage point. Were the Government to remain concerned about a reduction in hours, however, applying a year-long time limit to the policy, as described above, would help to mitigate its negative effects

The Government has increasingly expressed a concern about the sustainability of employment and progression routes within work (Harker, 2006), and we have seen that mini-jobs appear to be of slightly lower quality than other part-time work. Again, it could be argued that these policies simply allow lone parents to make more rational trade-offs between, for example, job quality and quality time spent with children. However, maintaining a continued entitlement to Income Support (or possibly to Jobseeker's Allowance) and the attendant 'work-focused' obligations would provide the Government with a mechanism to encourage lone parents to move into work of longer hours.

This Government has made substantial strides in both increasing the lone parent employment rate, and tackling child poverty, but progress on both targets is stalling (DWP, 2007c). Increasing the incentives for lone parents to work in mini-jobs would not only reduce the disparity between the incentives for lone parents and mothers in couples but also have the potential to make a substantial contribution towards these targets. The most effective policy to do this would be to increase the disregards within both Income Support and Housing Benefit and Council Tax Benefit. If the Government wished to concentrate more clearly on 'welfare to work' objectives alone, a time-limited increase in the Income Support disregard, in line with the provisions within the new Employment and Support Allowance, would represent a sensible, if more modest, way forward.

Notes

Chapter 1

- 1 See review in Brewer and Browne (2006) and references cited therein.
- 2 Figures provided to One Parent Families by the New Policy Institute from an analysis of Households Below Average Income.
- 3 A range of studies have shown that lone parents typically enter jobs paid at around the national minimum wage (Evans *et al.*, 2003; Dorsett *et al.*, 2007).
- 4 Some studies have suggested that there might be dynamic/long-run impacts on top of this, and these studies are discussed in Chapter 3.
- 5 The latest incarnation of the model is described in Brewer *et al.* (2005) and was used to assess the impact of WFTC in Brewer *et al.* (2005, 2006b).

Chapter 2

- 1 In 2001, 95 per cent of mothers in couples working one to 15 hours had a partner working more than 30 hours (Kasparova *et al.*, 2003). Of those mothers in couples with children whose partner worked 30 or more hours, 30 per cent were not doing any paid work, 10 per cent worked in mini-jobs, 26 per cent worked 16–29 hours and 33 per cent worked 30 or more hours.

Chapter 3

- 1 From October 2007.
- 2 If a lone parent is participating in the New Deal for Lone Parents she may also claim help with childcare costs for the first 52 weeks of work of less than 16 hours. The earnings disregard in Housing Benefit is £25 per week but, given that receipt of any IS entitles claimants to full HB, this disregard is relevant only when calculating entitlement to HB once entitlement to IS has been exhausted.
- 3 It is a measure of the disincentive, because high numbers mean weak incentives.

- 4 In practice, this difference in cash transfers may be offset by the fact that IS recipients are passported to some benefits in kind to which those receiving WTC are not.
- 5 Note that this conclusion is sensitive to the number of children in the family and the earnings assumed for the main earner in the couple. The comparison here is with a relatively low-income couple and a second earner in a high-income couple with children would face extremely strong incentives to do mini-jobs.
- 6 Based on Table 5.12 in Barnes *et al.* (2005), Table 1 of Blundell *et al.* (2005) and Tables 2 and 3 of this report. The difference between the findings in Barnes *et al.* (2005) and Blundell *et al.* (2005) could be because Barnes *et al.* (2005) use more recent data, or that Blundell *et al.* (2005) also include lone mothers who are living as a couple a year later.
- 7 Provided part-time work is defined as 16–29 hours; Table 1 in Blundell *et al.* (2005) splits part-time work into long and short part-time work, and both of those states individually show less stability than mini-jobs.

Chapter 4

- 1 The 16-hour rule within out-of-work benefits dates back to 1988 and its rationale appears to have been lost in the mists of time.
- 2 The largest gains from WFTC were for those families who were precisely at the end of the Family Credit (FC) taper before the reform; for lone parents, this tended to correspond to full-time work.
- 3 Brewer (2001) compares the EITC and WFTC as they operated in 2000, although both the UK and the US have changed the policies since then; Holt (2006) provides a more up-to-date description of the EITC.

Chapter 5

- 1 The Government's ten-year childcare strategy proposes extending the childcare element of the Working Tax Credit to those working eight hours a week (HM Treasury *et al.*, 2004), suggesting that the Government may believe there should remain minimum hours' eligibility for in-work support.

- 2 Some of these options would make the earnings disregard higher than the adult allowance. There is no inherent contradiction or difficulty with operating such a system.
- 3 This discontinuity would arise because people who receive IS are automatically passported to full HB/CTB. As soon as entitlement to IS is lost (because earnings are too high or hours reach 16) then entitlement to HB/CTB is based on a claimant’s actual income and the rules of HB/CTB. If earnings disregards in IS were greater than in HB/CTB, then HB/CTB would be calculated using a less generous means test than IS; the outcome is that entitlement to HB/CTB would immediately fall by 65 per cent (or 85 per cent) of the difference in the earnings disregards in IS and HB/CTB as soon as entitlement to IS was exhausted. The discontinuity would be more likely to occur if the difference in the disregards was greater and the hourly wage of the lone parent was higher.
- 4 Increasing only the earnings disregard in HB/CTB would do very little to incentives to work in mini-jobs but a great deal to encourage incentives to work in jobs of 16 or more hours, and so we do not consider this any more.
- 5 Formally, the model applies only to lone mothers, but for simplicity we assume that its results would apply also to lone fathers and continue to refer to lone parents in this section.
- 6 See Brewer and Paull (2006) for example.
- 7 This is for a variety of technical reasons. The labour supply modelling can tell us about family income, not household income, and it omits a small number of income categories included in the official measure. Furthermore, the labour supply modelling is trying to predict the impact of these policies were they to be introduced in 2008–09 and the latest data on child poverty is from 2005–06. Finally, the labour supply modelling uses a subset of the full FRS dataset and does not use the grossing weights.

Chapter 6

- 1 See Brewer *et al.* (2007) for early results from the quantitative impact assessment.

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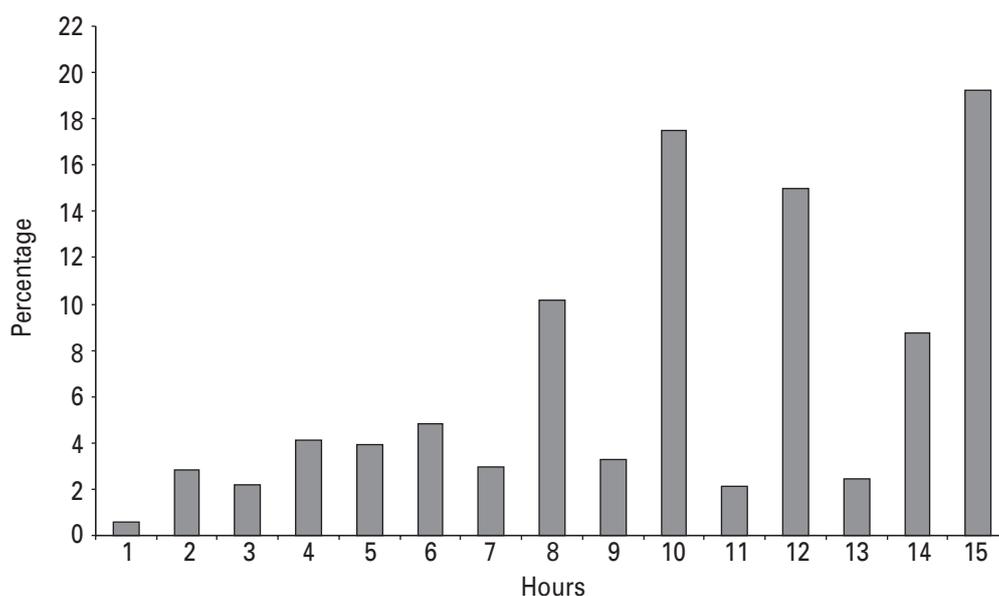
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Appendix 1: The characteristics of mini-jobs and workers in mini-jobs

This appendix makes use of data from the Labour Force Survey 2005 and 2006.

Figure A1.1 Hours worked by 'others', i.e. not lone parents or mothers in couples



Source: authors' calculations from household LFS 2005–06.

Tables A1.1 and A1.2 and Figures A1.2 and A1.3 look at some of the same differences between lone parents' and couple mothers' participation in mini-jobs as discussed in Chapter 2, this time comparing parents with similar levels of education, that is with educational qualifications at GCSE level or lower.

Table A1.1 The proportion and number of each type of person by employment/job-type status for this group (low education) (percentages in brackets)

Job/employment type	Type of person			Total (all education)
	Lone parents	Mothers in couples	Others	
None	592,389 (55)	905,010 (36.7)	2,975,971 (29.7)	11,317,358 (30.8)
1–15 Hours (mini-jobs)	38,984 (3.6)	274,395 (11.1)	372,071 (3.7)	1,557,441 (4.2)
16–29 Hours	211,512 (19.7)	632,908 (25.6)	871,925 (8.7)	3,605,499 (9.8)
30+ hours	233,413 (21.7)	657,316 (26.6)	5,803,909 (57.9)	20,222,673 (55.1)

Note: in this context, the classification of employment/job type is based on total hours worked in all jobs for a person. Hence, someone working 16–29 hours might be working two mini-jobs of ten hours each. The following sections detailing the characteristics of mini-jobs base its definition on the hours of each individual job.

Source: Labour Force Survey (2005–06) and authors’ calculations.

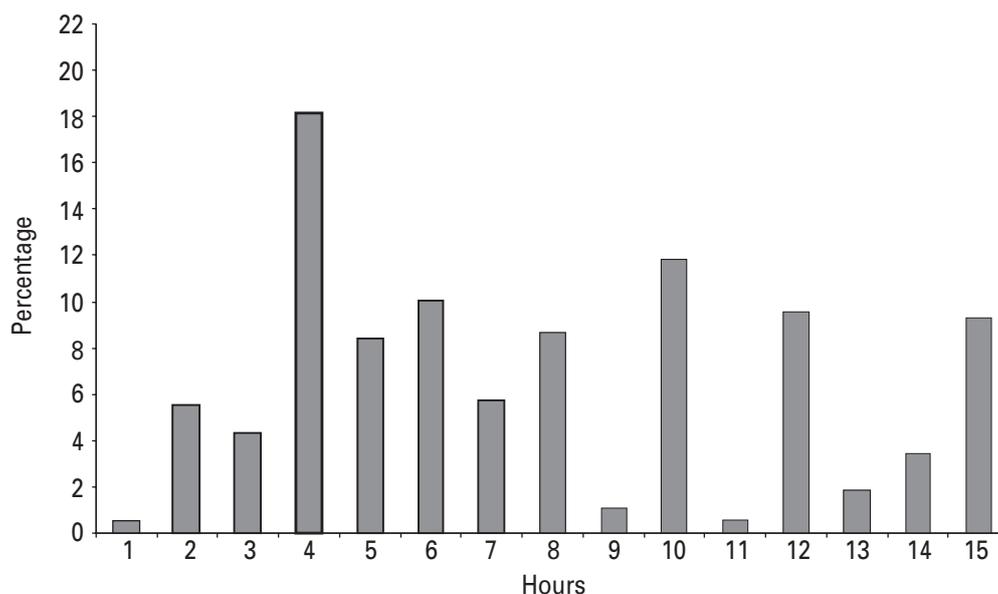
Table A1.2 How many hours do they do?

Job/employment type	Type of person			Total (all education)
	Lone parents	Mothers in couples	Others	
Mean	7.7	10.3	10.3	10.2
Median	7	10	10	10
Standard deviation	4.0	3.8	3.8	3.8

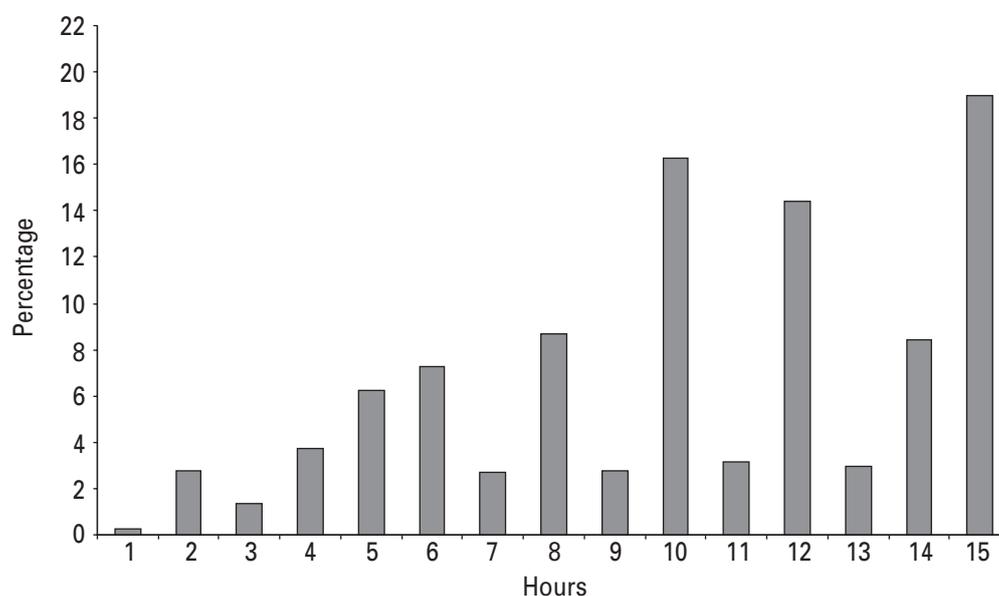
Note: this table is defined whereby ‘type of employment’ refers to total hours of work in all jobs.

Source: Labour Force Survey (2005–06) and authors’ calculations.

Figure A1.2 Lone parents’ hours



Source: authors’ calculations from household LFS 2005–06.

Figure A1.3 Mothers in couples' hours

Source: authors' calculations from household LFS 2005–06.

Tables A1.3 to A1.8 look in more detail at the characteristics of jobs below 16 hours.

Table A1.3 Management and supervisory responsibility

Job/employment type	Type of job			Total (%)
	Mini (%)	16–29 hours (%)	30+ hours (%)	
Managerial	6.8	11.7	30.7	25.5
Supervisory	7.4	10.9	14.4	13.2
None	85.8	77.4	54.9	61.3

Note: this table is defined such that 'type of job' refers to the hours worked in each individual job.

Source: Labour Force Survey (2005–06) and authors' calculations.

Table A1.4 Occupational status

Job/employment type	Type of job			Total (%)
	Mini (%)	16–29 hours (%)	30+ hours (%)	
Managers and senior staff	5.6	6.2	18.3	15.1
Professional occupations	11.6	9.2	14.0	13.0
Associate professional and technical	13.3	12.3	15.4	14.7
Administrative and secretarial	14.3	18.3	11.1	12.6
Skilled trades occupations	2.8	4.2	13.4	10.9
Personal service occupations	11.4	16.0	5.8	8.0
Sales and customer services	13.4	14.9	4.6	1.1
Process, plant and machinery operators	2.3	3.5	9.1	7.5
Elementary occupations	25.4	15.4	8.3	11.2

Note: this table is defined such that 'type of job' refers to the hours worked in each individual job.

Source: Labour Force Survey (2005–06) and authors' calculations.

Table A1.5 Industry/sector

Job/employment type	Type of job			Total (%)
	Mini (%)	16–29 hours (%)	30+ hours (%)	
Agriculture (etc.)	1.33	0.94	1.41	1.33
Fishing	0.05	0.03	0.05	0.05
Mining, quarrying	0.10	0.06	0.48	0.38
Manufacturing	3.79	5.30	16.03	13.12
Electricity, gas and water supply	0.08	0.17	0.74	0.59
Construction	2.59	2.46	9.66	7.83
Wholesale, retail and motor trade	18.15	19.88	12.36	14.11
Hotels and restaurants	8.39	6.12	2.86	3.93
Transport, storage and communications	2.31	4.15	7.87	6.72
Financial intermediation	1.95	3.39	4.82	4.30
Real estate, renting and professional services	11.47	8.83	12.07	11.51
Public administration	4.37	5.95	7.94	7.26
Education	17.83	14.46	7.46	9.61
Health and social work	14.31	20.80	11.18	12.98
Other community	11.49	6.77	4.73	5.74
Private household staff	1.77	0.63	0.26	0.47
Extra-territorial	0.03	0.02	0.07	0.06
Workplace outside UK	0.01	0.02	0.02	0.02

Note: this table is defined such that ‘type of job’ refers to the hours worked in each individual job.
Source: Labour Force Survey (2005–06) and authors’ calculations.

Table A1.6 Permanent/temporary

Job/employment type	Type of job			Total (%)
	Mini (%)	16–29 hours (%)	30+ hours (%)	
Permanent	81.0	91.9	96.1	93.9
Non-permanent	19.0	8.1	3.9	6.1

Note: this table is defined such that ‘type of job’ refers to the hours worked in each individual job.
Source: Labour Force Survey (2005–06) and authors’ calculations.

Table A1.7 Type of temporary work

Job/employment type	Type of job			Total
	Mini (%)	16–29 hours (%)	30+ hours (%)	
Seasonal	5.0	5.7	3.6	4.5
Fixed contract	29.5	44.8	54.6	44.5
Agency temping	6.6	13.1	25.2	16.8
Casual	43.5	21.8	6.6	21.5
Some other reason	15.4	14.6	10.0	12.7

Note: this table is defined such that ‘type of job’ refers to the hours worked in each individual job.
Source: Labour Force Survey (2005–06) and authors’ calculations.

Table A1.8 Whether training offered

Training in last 13 weeks	Type of job			Total (%)
	Mini (%)	16–29 hours (%)	30+ hours (%)	
Yes	21.3	26.8	28.9	27.7
No	78.7	73.2	71.1	72.3

Note: this table is defined such that ‘type of job’ refers to the hours worked in each individual job.
Source: Labour Force Survey (2005–06) and authors’ calculations.

Tables A1.9 to A1.14 look in more detail at the characteristics of workers in different job types.

Table A1.9 Highest qualification of worker in different job types

Highest qualification	Type of employment			
	None (%)	Mini (%)	16–29 hours (%)	30+ hours (%)
None	26.4	13.4	12.5	8.1
Basic	6.1	5.7	6.5	4.1
GCSE or equivalent	20.0	24.9	28.6	21.0
Vocational intermediate	9.6	8.7	7.9	14.3
A level or equivalent	12.1	16.5	12.8	11.2
Vocational advanced	5.7	9.4	10.4	10.8
Degree or higher	10.1	13.8	13.7	22.1
Other/don’t know	10.1	7.6	7.7	8.4

Note: this table is defined whereby ‘type of employment’ refers to total hours of work in all jobs.
Source: Labour Force Survey (2005–06) and authors’ calculations.

Table A1.10 Age of youngest child of worker in different job types

Type of person	Type of employment			
	None	Mini	16–29 hours	30+ hours
Lone parent	6.7	8.7	8.0	10.4
Mother in couple	6.0	6.8	7.2	8.7
Other	17.6	18.1	17.7	15.8

Note: this table is defined whereby ‘type of employment’ refers to total hours of work in all jobs.
Source: Labour Force Survey (2005–06) and authors’ calculations.

Table A1.11 Number of dependent children of lone parents in different job types

Employment type	Number of dependent children (lone parents)			
	1 (%)	2 (%)	3 (%)	4+ (%)
Not working	40.6	45.0	60.3	79.7
Mini-job	3.3	4.3	2.8	2.0
16–29 hours	19.5	21.5	17.9	10.5
30+ hours	36.6	29.2	18.9	7.8

Note: this table is defined whereby ‘type of employment’ refers to total hours of work in all jobs.
Source: Labour Force Survey (2005–06) and authors’ calculations.

Table A1.12 Number of dependent children of couple mothers in different job types

Employment type	Number of dependent children (couple mothers)			
	1 (%)	2 (%)	3 (%)	4+ (%)
Not working	26.8	28.5	42.6	62.9
Mini-job	7.7	12.0	12.5	9.6
16–29 hours	23.4	28.3	22.7	14.3
30+ hours	42.1	31.2	22.3	13.2

Note: this table is defined whereby ‘type of employment’ refers to total hours of work in all jobs.
Source: Labour Force Survey (2005–06) and authors’ calculations.

Table A1.13 Tenure of lone parents in different job types

Employment type	Tenure type				
	Owned (%)	Mortgage (%)	Own Rent (%)	Rented (%)	No rent (%)
Not working	35.6	14.9	9.6	61.9	58.3
Mini-job	4.3	2.7	10.0	3.8	6.2
16–29 hours	22.2	23.8	34.3	17.2	17.3
30+ hours	37.9	58.7	46.1	17.2	18.1

Note: this table is defined whereby ‘type of employment’ refers to total hours of work in all jobs.
Own Rent refers to part-owned or part-rented tenure type.
Source: Labour Force Survey (2005–06) and authors’ calculations.

Table A1.14 Tenure of couple mothers in different job types

Employment type	Tenure type				
	Owned (%)	Mortgage (%)	Own Rent (%)	Rented (%)	No rent (%)
Not working	33.6	22.8	30.9	58.8	47.4
Mini-job	11.8	10.9	11.2	6.7	9.3
16–29 hours	23.0	28.1	23.3	14.8	20.2
30+ hours	31.5	38.2	34.7	19.7	23.0

Note: this table is defined whereby ‘type of employment’ refers to total hours of work in all jobs.
Own Rent refers to part-owned or part-rented tenure type.
Source: Labour Force Survey (2005–06) and authors’ calculations.

Tables A1.15 to A1.20 detail further employment-related aspects of those working mini-, part- and full-time hours.

Table A1.15 Overtime

Ever do overtime?	Type of employment			
	Mini (%)	16–29 hours (%)	30+ hours (%)	Total (%)
Yes	12.7	25.8	43.2	38.9
No	87.3	74.2	56.8	61.1

Note: this table is defined whereby ‘type of employment’ refers to total hours of work in all jobs.
Source: Labour Force Survey (2005–06) and authors’ calculations.

Table A1.16 Looking for different jobs

Looking for different job	Type of employment			Total (%)
	Mini (%)	16–29 hours (%)	30+ hours (%)	
Yes	8.1	6.8	5.5	5.8
No	91.9	93.2	94.5	94.2

Note: this table is defined whereby 'type of employment' refers to total hours of work in all jobs.
Source: Labour Force Survey (2005–06) and authors' calculations.

Table A1.17 Underemployment (all)

Want to work longer?	Type of employment			Total (%)
	Mini (%)	16–29 hours (%)	30+ hours (%)	
Yes	18.1	14.1	4.4	6.6
No	81.9	85.6	95.6	93.4

Note: this table is defined whereby 'type of employment' refers to total hours of work in all jobs.
Source: Labour Force Survey (2005–06) and authors' calculations.

Table A1.18 Underemployment (lone parents)

Want to work longer?	Type of employment			Total (%)
	Mini (%)	16–29 hours (%)	30+ hours (%)	
Yes	36.2	18.9	5.7	12.2
No	63.8	81.1	94.3	87.8

Note: this table is defined whereby 'type of employment' refers to total hours of work in all jobs.
Source: Labour Force Survey (2005–06) and authors' calculations.

Table A1.19 Underemployment (mother in couple)

Want to work longer?	Type of employment			Total (%)
	Mini (%)	16–29 hours (%)	30+ hours (%)	
Yes	19.0	11.7	3.6	8.8
No	81.0	88.3	96.4	91.2

Note: this table is defined whereby 'type of employment' refers to total hours of work in all jobs.
Source: Labour Force Survey (2005–06) and authors' calculations.

Table A1.20 How many hours do they do?

Job/employment type	Type of person			Total
	Lone parents	Mothers in couples	Others	
Mean	7.7	10.3	10.3	10.2
Median	7	10	10	10
Standard deviation	4.0	3.8	3.8	3.8

Note: This table is defined whereby 'type of employment' refers to total hours of work in all jobs.
Source: Labour Force Survey (2005–06) and authors' calculations.

Appendix 2: Reasons for not working more than one to 15 hours a week

	Yes there is something stopping me look for work										Studying/ training
	Cannot afford childcare	No childcare available	Mother's illness or disability	Child's illness or disability	Other's illness or disability	No work available	No skills/ qualifications				
Lone parent working 1-15 hours	25	9	11	5	-	-	1			2	
Couple mother working 1-15 hours	12	4	3	3	1	1	0			2	

	Do not want to spend more time apart from children					Would not be able to pay rent/ mortgage		Problems with transport		Pregnant		I do not look for work for other reasons		No, there is nothing stopping me looking for work		I am already looking for work		Total	Unweighted base
	Better off not working	from children	time apart	spend more	Do not want to spend more time apart from children	from children	pay rent/ mortgage	Problems with transport	Pregnant	I do not look for work for other reasons	No, there is nothing stopping me looking for work	I am already looking for work	Total	Unweighted base					
Lone parent working 1-15 hours	5	45	3	3	-	3	12	12	12	12	12	12	12	12	12	12	12	100	73
Couple mother working 1-15 hours	0	67	0	1	2	1	2	2	2	2	2	2	2	2	2	2	2	100	464

Source: adapted from Table 5.11 in Lyon *et al.* (2006).

Appendix 3: The 1992 Family Credit hours rule reform

In April 1992, the rules of Family Credit (a precursor to Working Tax Credit) were changed so that eligibility depended on 16 hours of paid work per week rather than the 24 hours that had been required up until that time. This provides an important opportunity to ascertain the effect of changing hours rules on both employment rates and the changing distributions of hours worked. It should, however, be noted that the effect of a move from 24 to 16 hours may not be indicative of further reductions in qualifying hours and that changes in hours may reflect other factors (such as general economic environment or demographic composition). In essence what we report is descriptive not causal, although the results turn out to be strongly suggestive. The following work makes use of LFS data from 1990 to Autumn 1995 and focuses on the employment and hours of lone parents – the group most affected by the reform.

Table A3.1 Distribution of hours (all lone parents)

Hours band	Year/survey				Spring 1995	Autumn 1995
	1990 (%)	1992 (%)	1993 (%)	1994 (%)		
None	57.3	58.9	58.6	57.1	56.6	56.7
1–7	3.6	4.0	4.0	3.9	3.6	3.8
8–15	5.4	4.6	4.5	4.4	4.0	3.6
16–23	4.6	4.1	6.2	7.2	7.7	8.2
24–29	3.9	4.4	3.6	3.6	3.8	3.8
30+	25.2	24.1	23.2	23.8	24.3	24.0

Note: this table is defined such that 'type of job' refers to the total hours of work in all jobs.
Source: Labour Force Survey (1990–95) and authors' calculations.

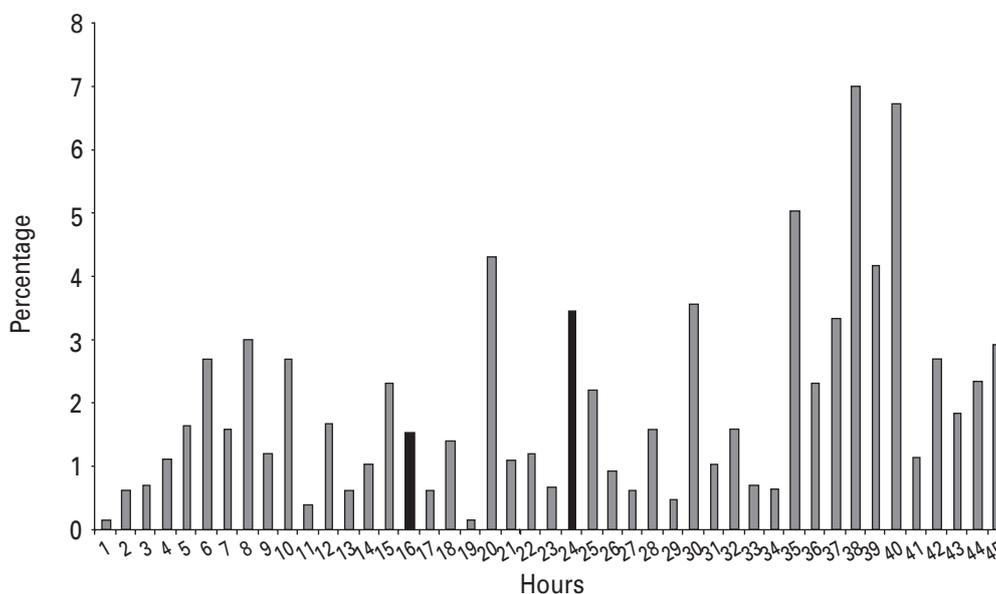
Table A3.2 Distribution of hours (employed lone parents)

Hours band	Year/survey				Spring 1995	Autumn 1995
	1990 (%)	1992 (%)	1993 (%)	1994 (%)		
1–7	8.4	9.7	9.6	9.0	8.2	8.7
8–15	12.8	11.1	10.8	10.3	9.2	8.2
16–23	10.8	10.0	14.9	16.9	17.7	18.9
24–29	9.1	10.6	8.7	8.4	8.8	8.9
30+	59.0	58.6	56.0	55.5	56.0	55.3

Note: this table is defined such that 'type of job' refers to the total hours of work in all jobs.
Source: Labour Force Survey (1990–95) and authors' calculations.

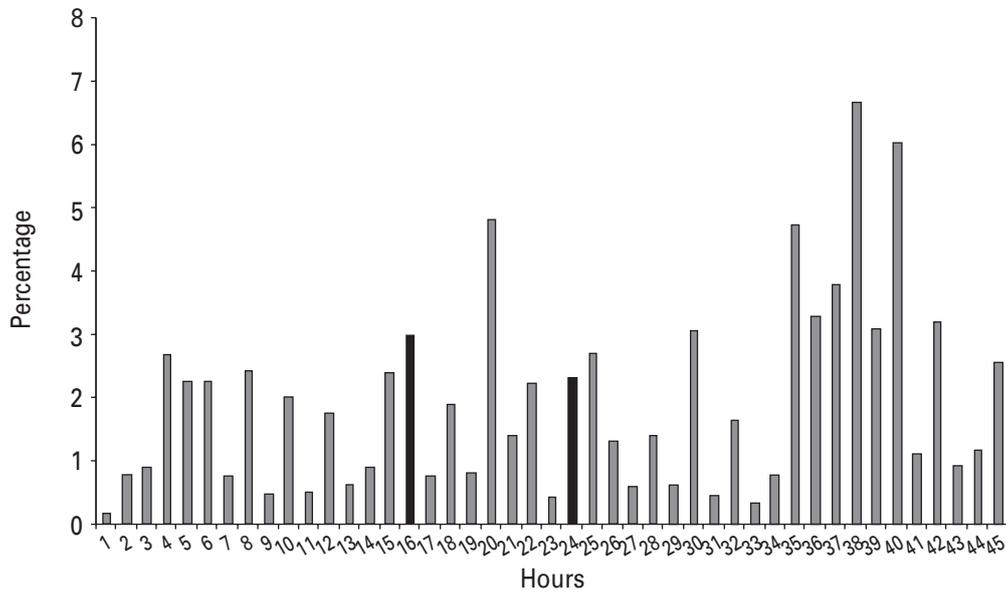
With the reform occurring in April 1992 and the surveys from 1992 onwards being conducted in the spring, 1992 should not be considered a ‘post-reform’ system, particularly given the late announcement of the policy (less than one month before implementation). From 1993 onwards, an effect of the reform is seen. The numbers working from eight to 15 hours and 24 to 29 hours decline, while those working 16 to 23 (particularly 16 and 20) hours increase rather greatly. This suggests that the reduction in qualifying hours from 24 to 16 results in an important adjustment in hours worked; hours rules do matter. A decline in those working 30+ hours also takes place, although this is more difficult to interpret. Figures A3.1 to A3.3 show the hours’ distribution for lone parents in 1990, 1993 and autumn 1995 and support the above conclusion.

Figure A3.1 Hours’ distribution for lone parents, 1990



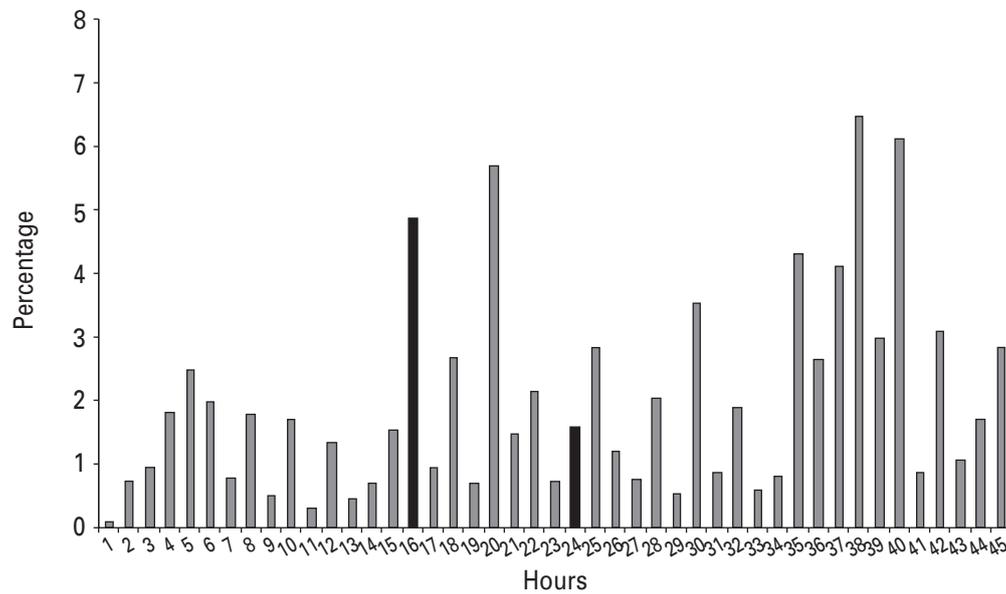
Source: authors’ calculations from household LFS 2005–06.

Figure A3.2 Hours' distribution for lone parents, 1993



Source: authors' calculations from household LFS 2005–06.

Figure A3.3 Hours' distribution for lone parents, autumn 1995



Source: authors' calculations from household LFS 2005–06.

Figures A3.1 to A3.3 highlight the shift in ‘bunching’ from 24 hours in 1990 to 16 hours in autumn 1995. Also notable is the rise in the proportion working 20 hours; this ‘half-time’ option was unattractive under the 24-hour rule, but became much more attractive under the 16-hour rule.

Mean hours of work

Table A3.3 shows the average hours of work, both in total and for those recorded as in employment only, and then those employed less than 30 hours only. The latter is done because of shifts in the composition of full-time work (from 40–42 to 37–39 hours of work).

Table A3.3 Average hours of work

Type	Year/survey				Spring 1995	Autumn 1995
	1990	1992	1993	1994		
All	12.42	11.85	11.63	11.99	12.47	12.39
Employed only	29.66	29.47	28.83	28.61	29.24	29.07
Employed less than 30 hours	15.31	15.44	15.44	15.66	16.09	16.17

Note: this table is defined such that ‘type of job’ refers to the total hours of work in all jobs.

Source: Labour Force Survey (1990–95) and authors’ calculations.

What these results suggest is that, while there was a shift in the bunching of hours and an increase in the proportion working 16–23 hours (and corresponding falls in neighbouring hours points), there was little overall effect on either the employment rate or the average hours’ input for lone parents. Falls in the hours of ‘employed only’ are rather small and may reflect changes above the area we would expect this policy to have most impact. Employment falls and then rises appear to be cyclical.

Appendix 4: Comparison of Income Support and Working Tax Credit

	Income Support	Working Tax Credit
Access to childcare costs?	If on the New Deal for Lone Parents, the childcare subsidy provides help with childcare costs for up to a maximum of £67.50 per week for one child and £100 per week for two or more children for a maximum period of 52 weeks.	Eighty per cent of childcare costs up to a maximum of £175 a week for one child and £300 a week for two or more children.
Passported benefits?	Healthy Start vouchers.	Healthy Start vouchers <i>if you work less than 16 hours a week</i> and your income is less than £14,155 a year.
	Sure Start Maternity Grant.	Sure Start Maternity Grant if you receive CTC of more than £545 a year.
	Free prescriptions, dental treatment, sight tests and vouchers for glasses and fares to hospital.	Free prescriptions, dental treatment, sight tests and vouchers for glasses and fares to hospital if you receive CTC and your income is less than £15,050 a year. N.B. At present entitlement to some benefits depends on <i>non</i> -receipt of Working Tax Credit. We might assume that, were WTC to be extended to those working fewer than 16 hours a week, this condition would be revised.
Access to Social Fund?	Access to Community Care Grant, Interest Free Budgeting Loans and Crisis Loans.	Access to Crisis Loans only.
Free school meals?	Yes.	If you work less than 16 hours a week and your income is less than £14,155 a year.
Form of assessment and payment	Weekly assessment, weekly payment.	Annual assessment, choice of weekly or monthly payment.

(Continued)

Lone parents and ‘mini-jobs’

	Income Support	Working Tax Credit
Treatment of overpayments	Are recoverable if proven to be due to client error/fraud.	Are recoverable except where deemed by HMRC to be the result of an error on its part or where it would cause exceptional hardship.
Treatment of Child Support payments?	If on the new system of Child Support, £10 of payments are disregarded. Claimants must currently apply to the Child Support Agency or opt out with ‘good cause’ as a condition of claiming Income Support. Under the reforms proposed by Government there will be a ‘substantial’ disregard and the requirement to co-operate will be abolished.	Disregarded entirely.
Treatment of housing costs	<p>Passported entitlement to Housing Benefit.</p> <p>Assistance with housing costs (often mortgage interest) once you have been claiming Income Support for nine or, in some cases, six months.</p>	<p>Entitlement to Housing Benefit dependent on income.</p> <p>Housing Benefit disregarded in tax credit calculation. £14.90 of earnings – or WTC if earnings insufficient – disregarded in Housing Benefit calculation where claimant is working more than 30 hours.</p>
Conditions/obligations for claiming the benefit	Attendance at regular work-focused interviews (frequency varies according to age of youngest child).	None.
Eligibility for employment/training support	Eligible for New Deal for Lone Parents.	None.
Eligibility for ‘back to work’ payments	If moving into work of over 16 hours: In Work Credit available to those who have been claiming Income Support for 12 months (in some areas of UK); four-week ‘run-ons’ of Housing Benefit and Council Tax Benefit for those who have been claiming benefits for 26 weeks; job grant of £250 if have been claiming benefits for 26 weeks or more.	None (by definition, recipients are already in work).

Source: One Parent Families (2006, 2007); CPAG (2007).