

The effect of job search requirements on welfare receipt

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Motivation

- Job search requirements for unemployment benefit recipients are a prominent feature of social assistance systems internationally.
- Stated rationales are to reduce welfare bills and improve employment outcomes.
- These policies, however, add extra administration cost and an extra burden on the recipients.
- Ascertaining the full effects of job search requirements is important but difficult.
 - Large-scale programs typically provide no credible control group.
 - Vast literature on the effects of incremental changes to job search requirements (monitoring, benefit sanctions, etc.) but the full effects of job search requirements are still under-studied.

Our study

- We exploit a reform to Partner Allowance, a payment for dependent spouses of welfare recipients in Australia, to investigate the effects of job search requirements on welfare receipt.
- From July 1995, only women born on or before 1 July 1955 were eligible, and women born after would need to apply for Unemployment Benefits. This creates a sharp cut-off based on date of birth, which determined whether welfare receipt was subject to the job search requirements.
- The reform offers an opportunity to evaluate the full-scale effect of job search requirements on the affected women and their partners.

Main findings

- Job search requirements significantly reduced the rate of welfare receipt for the affected women, by 50%.
- We find an equivalent reduction in welfare receipt for the male partners.
- The results suggest that the job search requirements deliver substantial fiscal savings.
- The results also highlight the family interdependences in labour supply and welfare decisions.

Rest of the talk

- Policy background
- Discussion of expected effects
- Data
- Model
- Key Results
- Discussion

Australian Welfare system

- Payments are universal and subject to means tests. Payment amounts reduce almost immediately when own income increases and reduce after spouse's income reaches a certain threshold.
- Main payments: disability (DSP), unemployment benefits (NSA) and Parenting Payments (PPP & PPS).
- Prior to 1994, partnered welfare recipients received a dependent spouse supplement.
- 1994: Partner Allowance (PA) replaced the dependent spouse supplement.

The reform

- In July 1995, PA restricted to partnered women born **before July 1, 1955** (without dependent children & with little labour market experience). Partnered women born after July 1, 1955 would have to claim NSA (same payment rate with PA) and are subject to an 'activity test'.
 - Unemployment benefit recipients are required to record details of a specified number of job applications every two weeks (typically 10). Failures of activity testing resulted in sanctions and benefit cancellation.
- In September 2003, PA was closed to new entrants.
- A 'natural' experiment from July 1995 to August 2003, two groups of married women: one faces job search requirements and one is not, when claiming benefits.

Expected effects of job search requirements

- Consider an unemployed household.
 - Job search requirements can be seen as a hassle and hence impose a cost of being on welfare.
 - Prior to the reform, only one person faces job search requirements when both are receiving welfare payments.
 - After the reform, both are subject to job search requirements, and hence the reform increase the hassle costs, which make the household to substitute away from welfare income toward employment income.
 - Due to means-tests, once one spouse finds employment and when the earnings are high enough, the other spouse will lose welfare payments or face a reduction in welfare payments.
 - Job search requirements imposed on the female spouse could reduce welfare receipt for **both spouses**.

Data

- Our main data source is the Research and Evaluation Database (RED)
 - Administrative longitudinal database of all welfare recipients in Australia since July 1, **1998** maintained by the Australian Department of Social Services
- Information on individual recipients' payment type, payment amount, date of entry into and date of exit from payments, sex, marital status and date of birth (DOB).
 - DOB is key to identify the treatment and control groups
- For each recipient with a partner, we also observe any welfare history of their spouse, along with their spouse's DOB

Sample selection

- Restrict the analysis to women born between 1/1/1950 and 31/12/1959.
- Extract monthly 'snapshots' (the first day) of the precise number of female income support recipients **from July 1998 to August 2003**, by DOB, marital status and main payment type.
- Extract monthly snapshots for male partners by the women's DOB and main payment type.
- The number of recipients at each birthdate will depend on the number of women born on that day. To control for differences in population size, we focus our analysis on **the share of each birthdate cohort on welfare**.
 - The estimated population size of each birth cohort is obtained from 'customer' table, also provided by the RED data.

Econometric Model: Regression Discontinuity Design (RDD)

- We employ a local linear regression, a common econometric specification in RDD analyses:

$$y_{it} = \alpha + \beta_0 T_i + \beta_1 (X_i - c) + \beta_2 T_i (X_i - c) + \epsilon_i$$

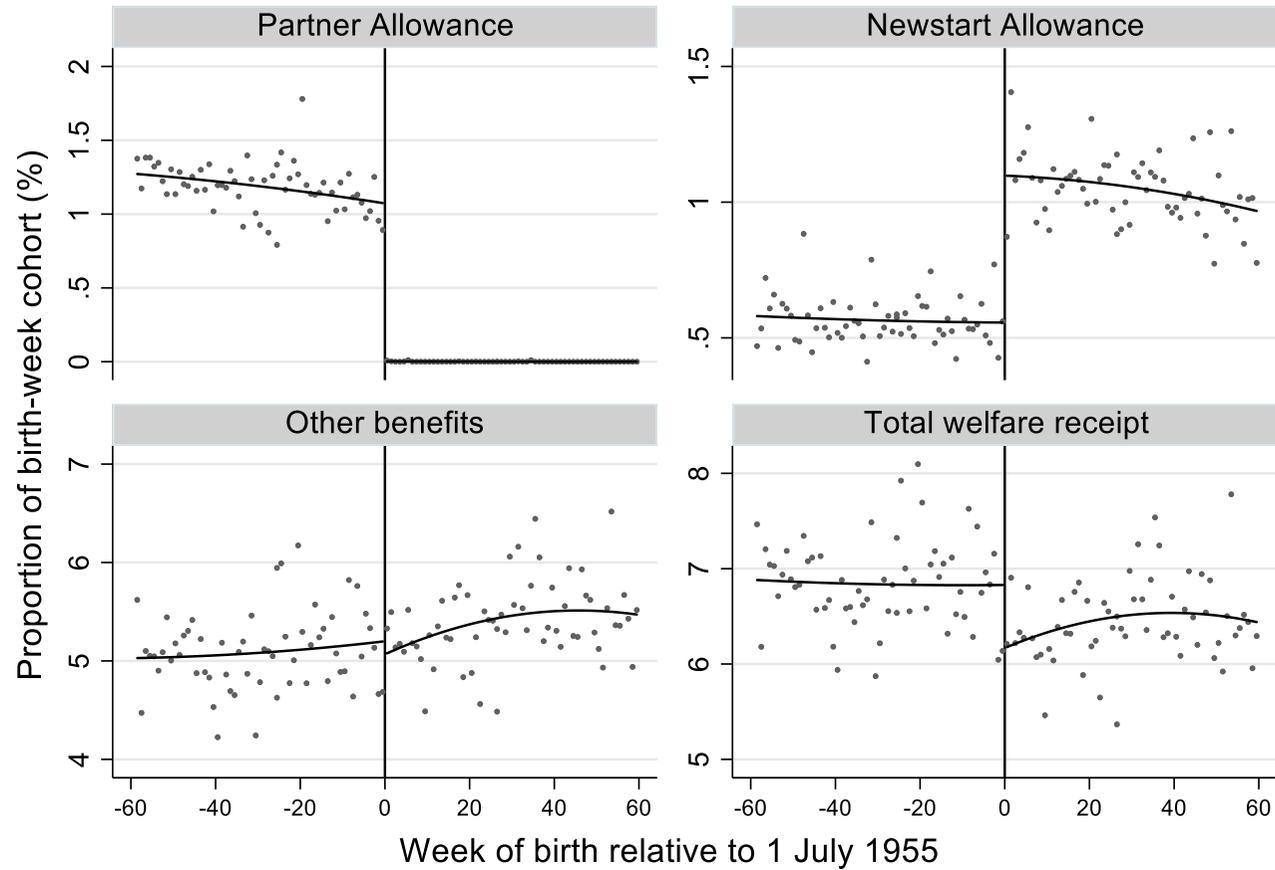
- where the estimation is based on a subset of the data within a chosen bandwidth/distance h to both sides of the DOB cut-off threshold c , *1 July 1955*.
- i denotes birth date i , X_i denotes the birthdate (running variable).
- T_i is the treatment group indicator (=1 if $X_i > c$, zero otherwise).
- β_0 is the treatment effect, measuring the impact of job search requirements.
- y_{it} is outcome variable, e.g. share of the population on welfare and married by date of birth.

Bandwidth

- Our preferred specification uses a data-driven bandwidth, combined with local linear specification and a triangle kernel.
- We follow Calonico et al. (Econometrica 2014; Stata Journal 2014) and estimate optimal bandwidths that minimise the mean squared errors criterion and we also provide robust inferences that correct for the bias that are due to 'large' optimal bandwidth.

Results

Proportion of women both on benefits and partnered, by benefit payment type and week of birth



Each dot represents a one-week birth cohort and shows the average proportion of the cohort, over the period July 1998-August 2003, that is both partnered and on the benefit type indicated by the panel heading.

RD estimates of the treatment effect by benefit payment type (and p-values)

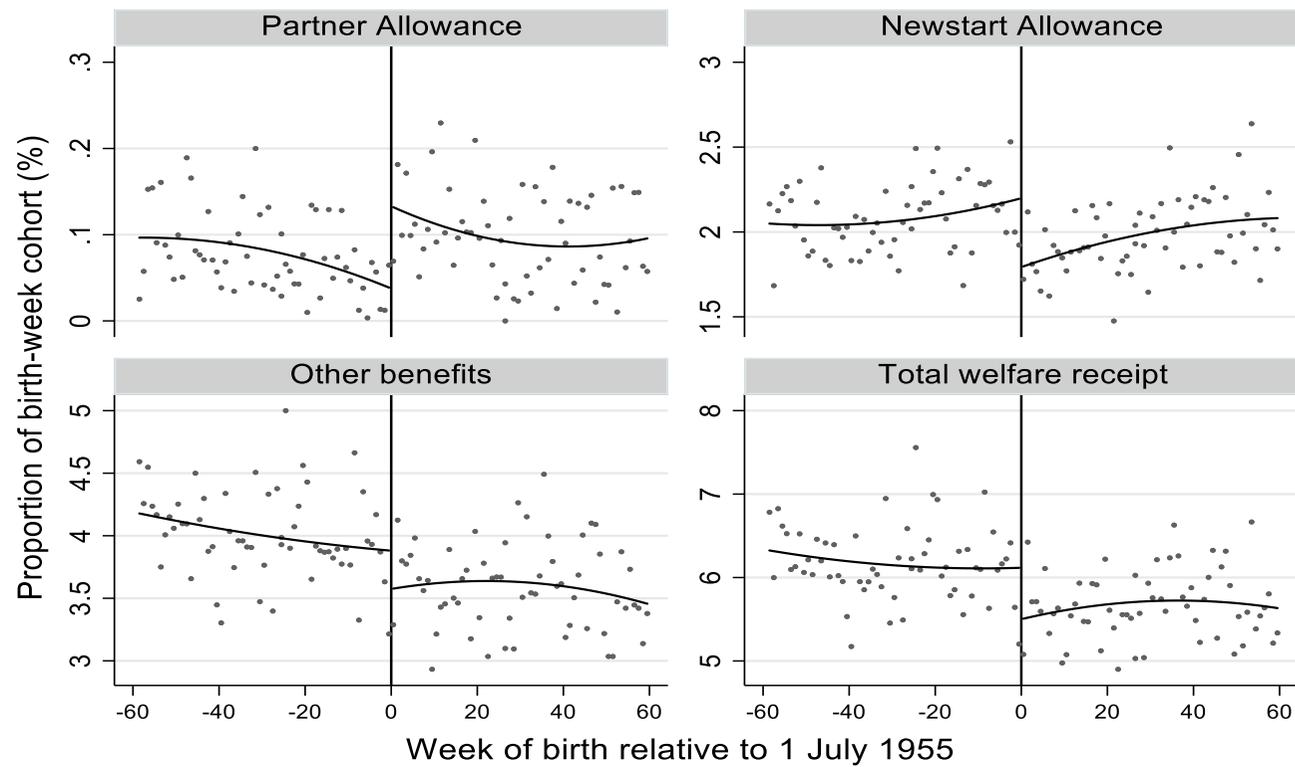
	Optimal bandwidth		33% less than optimal		33% more than optimal	
	Coef. est.	% of PA coef. ^(a)	Coef. est.	% of PA coef. ^(a)	Coef. est.	% of PA coef. ^(a)
Benefit payment						
Partner Allowance (PA)	-1.037*** (0.000)	-	-1.034*** (0.000)	-	-1.043*** (0.000)	-
Newstart Allowance	0.563*** (0.000)	54.3	0.547*** (0.000)	52.9	0.558*** (0.000)	53.5
Other benefit	-0.052 (0.602)	-5.0	0.048 (0.885)	4.7	0.042 (0.845)	4.0
Total welfare receipt	-0.527*** (0.006)	-50.8	-0.459** (0.039)	-44.4	-0.403** (0.021)	-38.6

The optimal bandwidths (from top) are: 560, 586, 390 and 428 days.

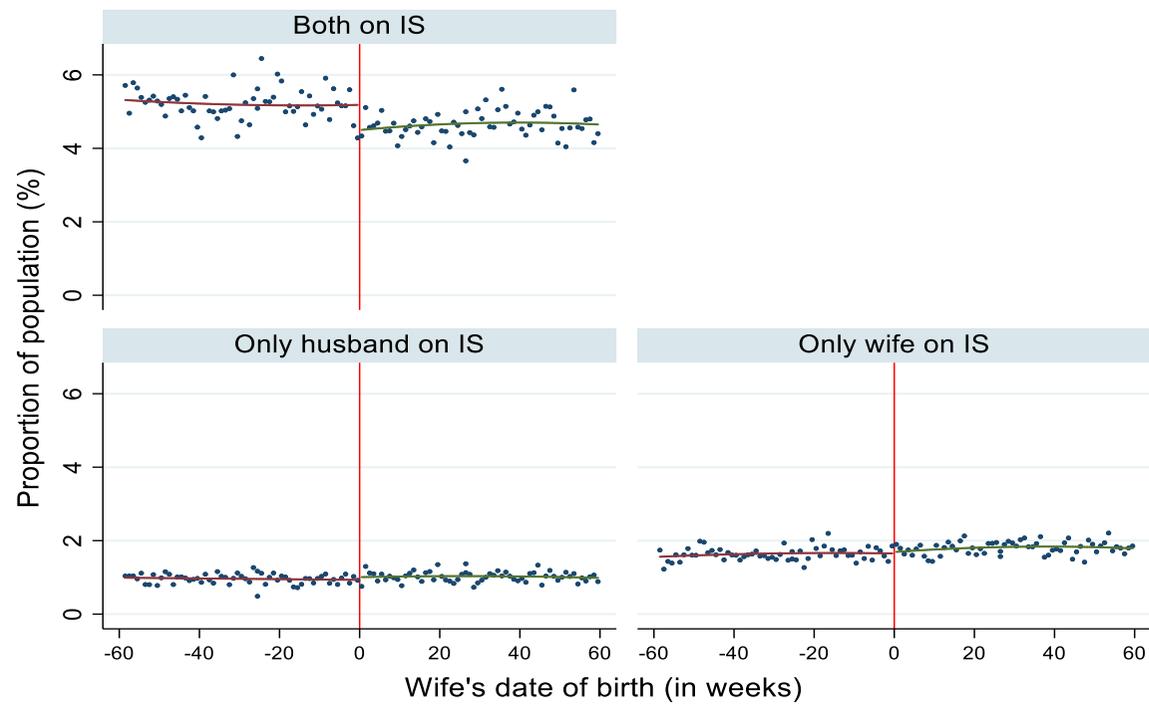
Impacts on the partners

- What happened to the partners?

Proportion of male partners on welfare receipt by the women's date of birth and the men's welfare payment type



Couple's welfare receipt status



RDD estimates of the treatment effect for male partners and for couples

Panel A Male partners			
	Optimal bandwidth	33% less than optimal	33% more than optimal
Benefit payment			
Partner Allowance	0.064*** (0.000)	0.075*** (0.000)	0.058*** (0.000)
Newstart Allowance	-0.359*** (0.000)	-0.320*** (0.003)	-0.295*** (0.000)
Other benefit	-0.163 (0.221)	-0.220 (0.130)	-0.184 (0.162)
Total welfare receipt	-0.444*** (0.010)	-0.475** (0.018)	-0.371** (0.019)

RDD estimates of the treatment effect for couples

Panel B Couples			
	Optimal bandwidth	33% less than optimal	33% more than optimal
Benefit payment			
Both on welfare	-0.552*** (0.001)	-0.544*** (0.003)	-0.449*** (0.002)
Only female on welfare	0.057 (0.369)	0.025 (0.715)	0.056 (0.289)
Only male on welfare	0.079 (0.118)	0.087 (0.103)	0.082 (0.120)

Robustness Checks

- We examine the effects on single women and we find the reform does not have any effect on welfare receipt for single women.
- We run several placebo tests by producing RD estimates for alternative cut-offs for date of birth: 1 July 1933, 1 July 1954, 1 July 1956 and 1 July 1957. Estimates are mostly small and none are significant.

Discussion

- Job search requirements result in substantially lower benefit receipt of the affected individuals: a reduction of 50%.
- The imposition of the job search requirement on the female member of the couple has a similar effect on the male partner.
- Taking the responses of both spouses, our results suggest imposition of job search requirements on matured aged women can have substantial impact on their welfare receipt, and labour supply.
 - The 2003's change to Partner Allowance should translate into substantial fiscal savings.
 - A similar change in the UK in 2013 should have significant effects.
- Our results re-enforce the importance of the family context in determining labour supply responses to policy interventions, especially in the context of means-tested benefits.
- Our results are directly applicable to means-tested unemployment benefits.
- Our results show that mature-aged individuals strongly dislike job search requirements. Job search requirements should increase their labour supply and reduce their benefit receipt.