Stream 1: Empirical Studies of the Labour Market and its Interaction with the Social Security System

2. Effect of changes to activity test arrangements on exit from payments – A: Mutual Obligation

Background

The motivation for the project is the significant policy interest that attaches to the relation between activity test arrangements and time spent on payments by unemployed persons. For example, this issue is currently the subject of a detailed review by the Labour Market Analysis Section of FaCS.

Objective

This project will examine how the introduction of Mutual Obligation has affected exit from payments for Newstart Allowance recipients.

Methodology

The project will seek to examine the effect of the introduction of Mutual Obligation (MO) for NSA/YA payment recipients aged 18 to 24 years (July 1998) and aged 25 to 34 years (July 1999).

The preferred methodology is a natural experiment approach. Using this approach the effect of the policy change is identified by comparing outcomes for a treatment and control group, before and after the policy change. For example, for the introduction of MO for NSA payment recipients aged 18 to 24 years the control group could be payment recipients aged 22 to 24 years who are subject to participation in MO, and the control group could be payment recipients aged 25 to 27 years. The pre-policy change period would encompass payment spells that begin prior to 1 January 1998 (and hence reach the six month point of eligibility for Mutual Obligation after 1 July 1998), and the post-policy change period would encompass spells that commence after 1 January 1998.

An important first stage in the project will be to investigate patterns of participation in MO. This will involve identifying of the proportion of payment recipients in the treatment and control groups who are observed to switch to MO or to Intensive Assistance, and undertaking analysis of the characteristics of payment recipients who are and are not observed to switch (for example, region of residence, earned income, and activity test category history).

The second stage in the project will involve modelling the incidence of exit from payments. For this analysis a hazard function approach will be adopted. A method of hazard function estimation that incorporates a non-parametric baseline hazard will be used. This is in order to capture possible effects of the policy change in the most flexible manner possible. The modelling will also seek to incorporate effects of unobserved heterogeneity between payment recipients. (In other words the modelling would follow similar lines to the work on exit from sole parent pensions undertaken for FaCS by Dr Garry Barrett.)

For work on this project a special sample from the LDS will be required. [It has been found from work undertaken for the Labour Market Analysis Section that the 1% sample

does not give a sufficiently large number of observations to have confidence in the significance of the results.] Two special samples – one for each case of the introduction of MO – would be needed. In each case the special sample would involve selection of samples of payment spells for recipients in the treatment and control age groups who have payment spells during the pre and post policy change periods.

Team Membership

The Melbourne Institute contact for this project will be Associate Professor Jeff Borland.