DOES JOBSEEKER TARGET THOSE WHO NEED IT?

e61 Research Note No. 7

Summary

Does JobSeeker target those who need it?

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We examine the extent to which the Australian unemployment benefit system supports workers through a period of job loss. We look to answer two related questions – does the payment go to those that need it, and is the payment sufficient to support those who receive it?

To answer these questions we analyse how well households smooth their spending through unemployment using an event study framework - a sharper drop in spending indicates they have greater need for income support.

Based on the event study we find:

- The system mainly excludes those who do not need the payment. However, there is a group of single people who are ineligible for the JobSeeker payment even though they appear to need it.
- The payment rate appears insufficient to prevent a large and sustained drop in spending by many of those who receive it.

These results suggest that the current targeting regime is relatively successful at excluding those that may not need the support, but that a higher payment rate or other access to funds may be beneficial.

Alongside the the accompanying e61 note *Income Support Gaps: When jobseekers don't seek jobs*, our research suggests that reforms to the JobSeeker program should focus on ensuring that single individuals without children are not being unfairly penalised by the current system.

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Conceptual framework

When people lose their jobs, unemployment benefit payments provide temporary relief from income loss – making it a form of individual income insurance. To limit costs, policymakers want to provide this insurance only to those most in need.

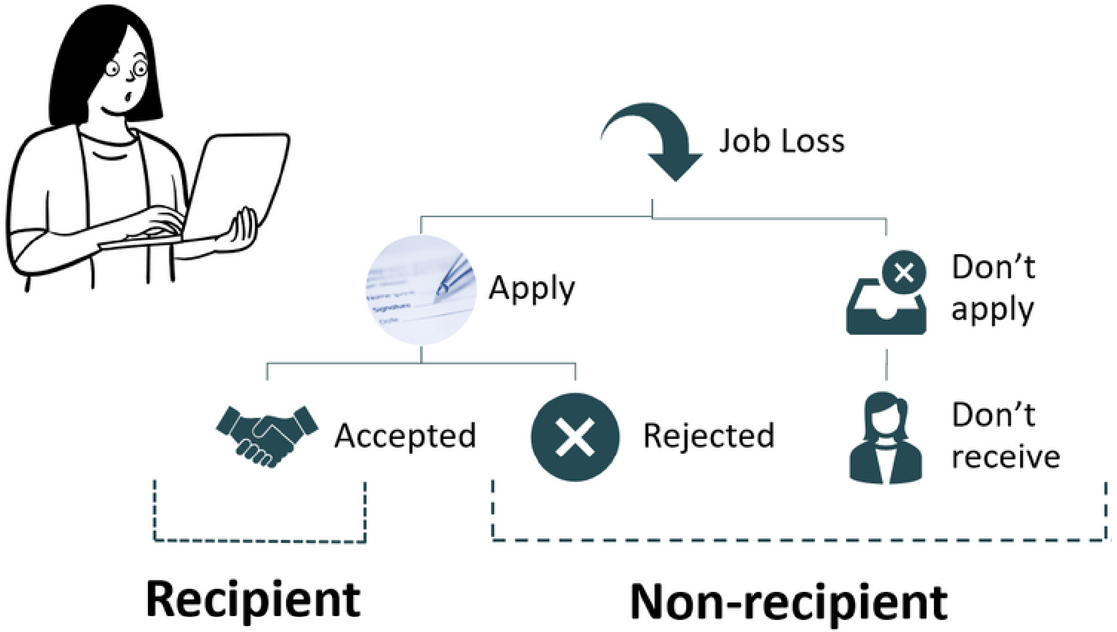
The payment being evaluated is the **JobSeeker Payment (JSP)**. Receipt of this payment depends on a person having sufficiently low current income, and meeting a series of eligibility criteria based on their means and willingness to work.

This note aims to answer two questions:

- **Eligibility settings**: Are we providing the payment to the people who need it?
- **Payment level**: For those that are eligible, is the payment set at the right level or do they have sufficient access to funds?

Determining the "right" payment level is difficult - and depends on the desire to redistribute income, the estimated cost of job loss, personal beliefs about who is responsible for these costs, and potential behavioural changes due to the payment.

To gain insights into the estimated cost of job loss this note focuses on a *full insurance* benchmark by comparing the consumption of those who lose their job to those who do not. This does not imply that policy should stop consumption from declining following job loss as discussed in Appendix D. However, the comparison of the relative consumption of different groups provides insights that help us think about the eligibility and payment questions.



There are two other important questions we do not cover in this note:

- **Do high "effective" tax rates change work choices?** For some beneficiaries the decision to start working, or increase hours of work, leads to a very high tax rate. Does this lead individuals to change their decision to work?
- **Are people in the same circumstances treated the same?** Are people consistently getting access to the "right" benefit?

Research design

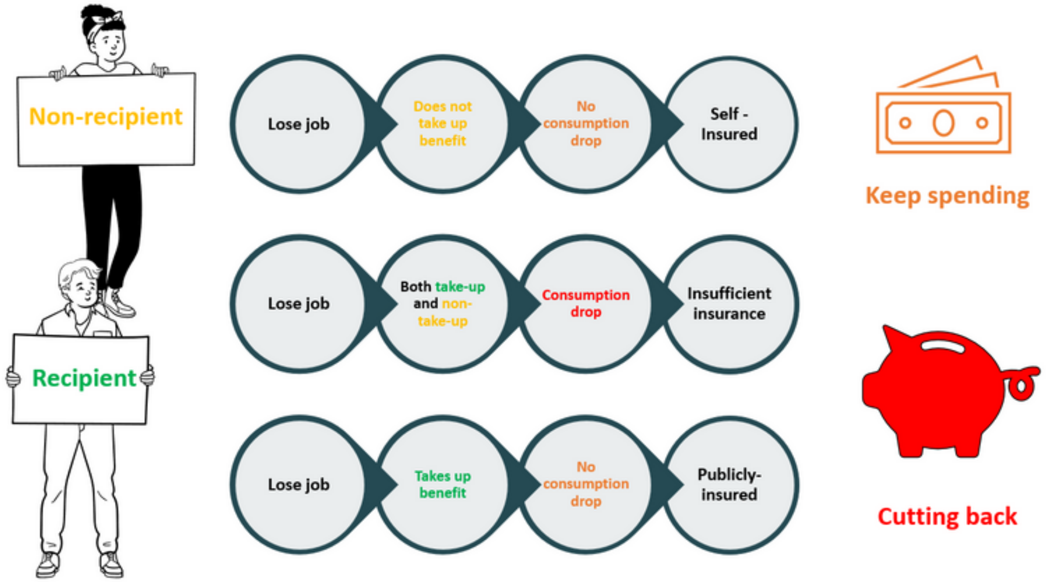
The research design is based on the following idea. People like to smooth their consumption over time, even as their income fluctuates. Some people can `self-insure' against income losses associated with unemployment because they have enough savings, or can lean on family for financial support. If these people are fully insured against the cost of job loss, there should be a relatively muted decline in their spending during unemployment.

But there will be some **non-recipients** that do not have enough cash on hand to support themselves. For these people, we should observe a sizable drop in spending during an unemployment spell. These are the people that that are excluded from the income support system, even though they may need the payment.

If targeting of the payment is effective at excluding those who are fully insured, there should be no consumption losses associated with job loss for non-recipients.

An implication of viewing the income support system as insurance is that a **receipient** of the unemployment benefit contributed to this payment through taxes paid when they were working. If this public insurance was sufficient (alongside their private savings) for them to be fully insured, the level of the payment should be sufficient to prevent a large consumption drop when a recipient loses their job.[1]

In setting the appropriate level of unemployment insurance, the government faces a trade-off – a higher payment may provide more income support but can create incentives to stay out of work. From society's perspective, it may be optimal to allow for some consumption losses during unemployment – in other words, to only provide partial unemployment insurance.



[1] Further discussion of the comparison between these groups is given in Appendix D & I.

Job loss and consumption

We consider how household spending changes in response to the head of the household losing their job involuntarily using an event study and longitudinal data from the Household Income and Labour Dynamics in Australia (HILDA) Survey.[2]

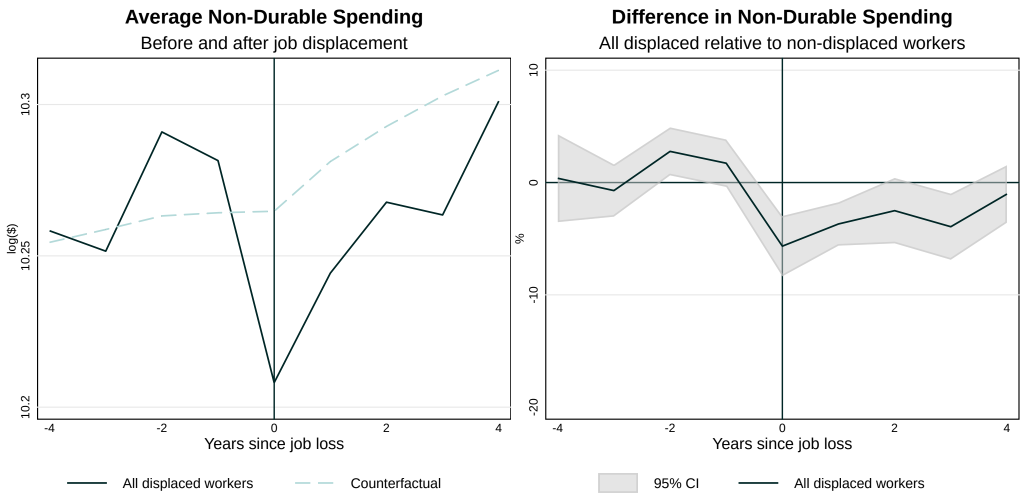
We measure consumption at an annual frequency using spending on non-durable goods and services. These estimates are available in the HILDA Survey from 2006 to 2021. The sample includes working household heads that are aged 24-55 years with a total of more than 84,000 observations and over 1,200 observations of job displacement.[3]

The average working household reduces spending by 7.5 per cent in the year of job loss.

This spending decline is similar to previous estimates for Australia and overseas.[4] The spending by the displaced working households remains below that of the non-displaced households for several years after the displacement event. This suggests that households need time to rebuild their savings following unemployment.

The fact that consumption drops during job displacement indicates that newly unemployed workers are not fully insured. But is this due to some people being excluded, or the size of the payment?

Figure 1: Consumption response to job loss



Coefficient estimates from OLS regression with controls, time and worker fixed effects.
Sample includes household heads aged 24-55 only.
Sources: HILDA Survey Release 21.0; e61 Institute

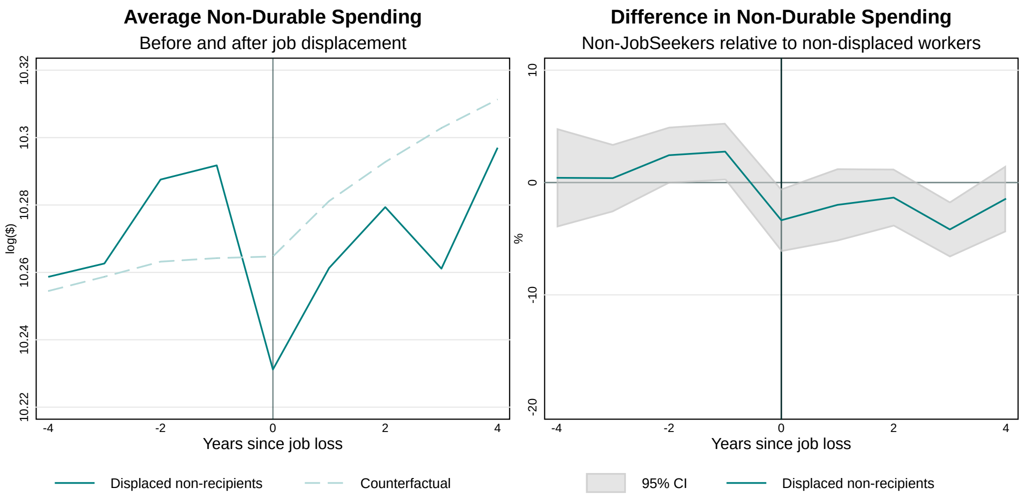
2 For a detailed explanation of the event study specification and measurement of consumption see Appendix C, and for further information on the HILDA survey data, as well as characteristics of each group within our sample, see Appendices A & B.

3 We estimate the consumption response to unemployment specifically for the primary earner in the household (which we refer to as the `household head'). Appendix E discusses the sensitivity of this result.

4 See, for example, La Cava and Penrose (2021) for Australia and Hyun Koo (2020), Landais and Spinnewijn (2019) for international comparisons. Further sensitivity checks using other types of spending can be found in Appendix C.

Is targeting excluding those who don't need it?

Figure 2: Consumption response to job loss for non-recipients



Coefficient estimates from OLS regression with controls, time and worker fixed effects.
Sample includes household heads aged 24-55 only.
Sources: HILDA Survey Release 21.0; e61 Institute

To evaluate the role of targeting we undertake the same event study for those who do not receive the JobSeeker payment. If non-recipients are fully insured, they should not reduce consumption during unemployment.[5]

In the year of job loss, consumption drops by 6.1 per cent for non-recipients.

This decline in spending indicates that the average non-recipient is not fully insured against job loss. The spending of non-recipients remains persistently lower than the non-displaced working households for three to four years after displacement, though these differences are generally not statistically significant.

These estimates mask significant heterogeneity in the consumption response to unemployment by family type. The consumption of single non-recipients falls sharply (declining 14%) while the consumption of non-recipient couples declines more modestly (declining 3%). This is described in greater detail in Appendices F and G.[6]

As a result, there are many single individuals who are uninsured against job loss and do not receive the payment. However, coverage for couples appears adequate.

5 The income shock faced by recipients and non-recipients is discussed in Appendix I. Both groups see a similar sharp decline in income following job loss.

6 For further analysis of response heterogeneity by age and parental status, see Appendix H.

Is the payment high enough for full insurance?

To evaluate whether JobSeeker pays enough to provide full insurance to those who receive it, we undertake the same event study, but this time just for those who receive the payment. This allows us to estimate the consumption losses associated with unemployment for recipients. There should be no consumption losses following job loss if the payment provides full unemployment insurance.

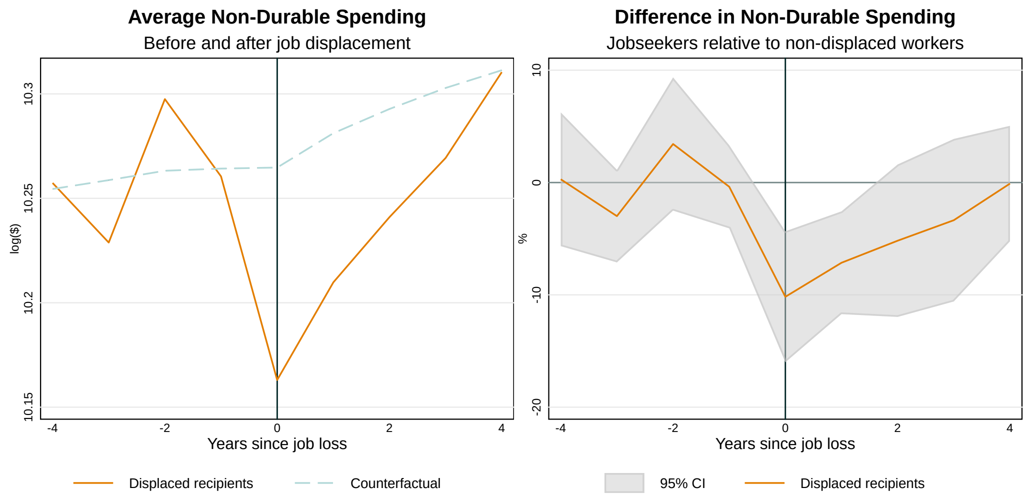
In the year of job loss, spending of JobSeeker recipients drops by 10.5 per cent.

As well as dropping sharply immediately following job loss, spending remains persistently below the trend in spending of non-displaced working households for the next four years. The estimated consumption losses are similar when controlling for associated income losses (Lancaster 2021). This indicates that recipients are not just uninsured but liquidity constrained - as discussed in Appendix D.

This decline is largely among single JSP recipients, whose consumption drops 16% following job loss. As with non-recipients the consumption drop for couples is modest (a 3% decline).

The consumption losses for recipients are larger and more persistent than estimated for recipients in the United States (Ganong and Noel 2019).

Figure 3: Consumption response to job loss for recipients



Coefficient estimates from OLS regression with controls, time and worker fixed effects.
Sample includes household heads aged 24-55 only.
Sources: HILDA Survey Release 21.0; e61 Institute

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Disclaimer

The Household, Income and Labour Dynamics in Australia (HILDA) Survey

This paper uses record data from the Household, Income and Labour Dynamics in Australia (HILDA) Survey. The unit record data from the HILDA Survey was obtained from the Australian Data Archive, which is hosted by The Australian National University. The HILDA Survey was initiated and is funded by the Australian Government Department of Social Services (DSS) and is managed by the Melbourne Institute of Applied Economics and Social Research (Melbourne Institute). The findings and views based on the data, however, are those of the authors and should not be attributed to the Australian Government, DSS, the Melbourne Institute, the Australian Data Archive or The Australian National University and none of those entities bear any responsibility for the analysis or interpretation of the unit record data from the HILDA survey provided by the authors.

Acknowledgements

We would like to express our sincere gratitude to the individuals who have provided valuable insights and discussions on this work. We would like to extend our appreciation to Dan Andrews, Jeff Borland, Peter Ganong, Greg Kaplan, Erik Hurst, Jess Rozen, Petr Sedlacek, Peter Whiteford, and Roger Wilkins for their expertise and guidance in shaping the ideas presented in this work. Their insightful comments and suggestions have been instrumental in improving the quality and rigor of this work, and we are deeply grateful for their contributions.