



Channels of labour supply responses of lone parents to changed work incentives

Xiaodong Gong and Robert Breunig (2014)

April 12, 2018

Oxford Economic Papers, Volume 66, Number 4, pp. 891-915.

Key findings

The 2004 and 2006 reforms to Parenting Payment Single and Family Tax Benefit:

- resulted in increased work hours and an increased probability of working for single mothers; and
- most of the change in hours was due to changing jobs, possible evidence of within-job, labour market rigidities.

What we knew

- A large international literature has demonstrated that increasing the benefits to work (through programs such as the Earned Income Tax Credit (EITC) in the US) or decreasing welfare payment levels and restricting access to income support lead to increases in employment of women with children.
- Australia changed the rules around Family Tax Benefit (FTB) and Parenting Payment Single (PPS) in 2004 and 2006 with the goal of encouraging work.
 - In 2004, the withdrawal rate of FTB was lowered, making work more attractive. Families could keep more of their income support payments even as they worked more.
 - In 2006, the eligibility rules for PPS were tightened so that single parents with children of school age no longer qualified for PPS but instead qualified for a less generous unemployment benefit, Newstart.
 - In addition to being less generous than PPS, Newstart has labour force or educational participation requirements that single parents would not have faced under PPS.
 - A new Child Care Rebate (CCR) was introduced which reduced the costs of working.

What we do

- We use panel data from the Household Income and Labour Dynamics in Australia (HILDA) survey.
- We use single childless women, unaffected by the policy changes as a control group for single mothers.
- We use a quasi-experimental approach and control for changes in the labour market over time using a difference-in-difference methodology.
- We examine changes in the propensity to work, in hours worked, and in the channels that single mothers used to change their working hours.



What we know now

- The 2004 reforms had a positive effect on the number of hours worked by women who were already working.
 - The effect on hours was uneven. For women who stayed in the same job, there was no statistically significant change in hours.
 - For women who changed jobs, work hours increased by 5.3 hours per week on average.
 - The effect was strongest for those with higher levels of education, those with fewer children and those whose children were older.
 - The reforms increased the probability that non-working women took up work.
- The 2006 reforms had a small positive effect on working hours and probability of working but the effect is not statistically significant across the entire population
 - There was a statistically significant effect on working hours for women with tertiary education.
 - There was an increase in the probability of taking up work for those women for whom the PPS rules did not change.
 - Thus, CCR had a positive impact on the probability of taking up work.

What this means for policy

- Increasing the costs of not working (by tightening welfare rules or reducing benefit amounts) and decreasing the costs of working (through child care subsidies) result in increased labour supply through additional working hours and an increase in the probability of employment.
- Such policies affect different sub-groups differently. More highly educated women and women with fewer and older children are the most likely to work more or take up work.
- Job change is an important channel for changing working hours. Welfare reform is more likely to succeed in increasing work if the labour market is dynamic and growing.

Where to now?

- One of the arguments for reforms of the types studied here is that children benefit from going to child care and from seeing their parent(s) work. This hypothesis could be tested with linked administrative data which combine income support data with educational achievement data.
- Administrative data could be used to study the effect of these policies using the entire population rather than the relatively small samples available through HILDA. Longer-term effects could also be studied in this manner.

More information

- Get the full paper at: https://crawford.anu.edu.au/pdf/staff/robert_breunig/hourchange_v1.pdf.
- We would welcome the opportunity to present our research to your team and to discuss potential joint research projects on related or similar topics.
- Contact us at robert.breunig@anu.edu.au or xiaodong.gong@canberra.edu.au