

Senate Standing Committee on Education and Employment

QUESTIONS ON NOTICE Additional Estimates 2014 - 2015

Outcome 1 - Employment

Department of Employment Question No. EMSQ15-000075

Senator Cameron asked on 10 April 2015 on proof Hansard page 32

Question

Referral effect

Senator CAMERON: The referral effect—where did this come from? Are there academic papers on this? What tells you about the referral effect?

Mr Hehir: From memory, there is OECD work looking at the referral effect. So, yes, it is a well-known phenomenon. People call it different names, but the referral effect is that there is a strong motivator in some of the activation programs for people to go out and actively seek work. So the view or, if you like, the attitude is, 'Well, if I'm going to have to go and do 25 hours of work, I might as well go and do something that I am going to get paid for.'

Senator CAMERON: That sounds highly technical. It does not really answer my question. What are the academic papers that you are basing this on?

Mr Hehir: I will take that on notice.

Senator CAMERON: What are the OECD papers that you are basing this on? Has there been an analysis that you have based this answer on?

Ms Leon: Yes, and we have our own analysis of the referral effect from when people are referred to the Work for the Dole program—the percentage that then drop out of employment services and report that they have a job. That is data that is available to us.

Senator CAMERON: Could you provide that to me and could you also provide the basis of your internal analysis—what you base your analysis on—to come up with this outcome? Is that available?

Mr Hehir: We can take that on notice.

Senator CAMERON: Ms Leon is referring to the outcome; I am asking for the methodology that you have used. Is that available?

Mr Hehir: We can certainly take that on notice.

Answer

What are the academic papers that you are basing this on?

The referral effect is widely reported in the literature on active labour market programmes. Some examples follow.

- Andersen, S.H. (2013). 'How scary is it? Review of literature on the threat effect of active labor market programs'. Rockwool Foundation Research Unit Study paper no. 48. Copenhagen: The Rockwool Foundation Research Unit and University Press of Southern Denmark.
- Venn, D. (2012). 'Eligibility Criteria for Unemployment Benefits: Quantitative Indicators for OECD and EU Countries', OECD Social, Employment and Migration Working Papers, No. 131, OECD Publishing. <http://dx.doi.org/10.1787/5k9h43kgkvr4-en>
- United Kingdom Department for Work and Pensions (2012). 'Evaluation of Mandatory Work Activity', Research Report no. 823.

- Maibom, J.R. (2012). 'Experimental evidence on the effects of early meetings and activation'. Institute for Labor Studies (IZA) Discussion Paper 6970.
- Rosholm, M., Svarer, M. (2008). 'The Threat Effect of Active Labour Market Programmes'. *Scandinavian Journal of Economics* 110(2): 385-401.
- Hägglund, P. (2006). 'Are there pre-programme effects of Swedish active labour market policies? Evidence from three randomised experiments'. IFAU working Paper.
- Geerdsen, L. (2006). 'Is There a Threat Effect of Labour Market Programmes? A Study of ALMP in the Danish UI System'. *Economic Journal*, 116, 738-750
- Black, D.S. (2003). 'Is the Threat of Reemployment Services More Effective than the Services Themselves? Evidence from Random Assignment in the UI System'. *American Economic Review*, 93, 1313–1327.
- Richardson, L. (2002). 'Impact of the Mutual Obligation Initiative on the Exit Behaviour of Unemployment Benefit Recipients: The Threat of Additional Activities'. *The Economic Record* 78(243): 406–421.

Could you also provide the basis of your internal analysis—what you base your analysis on—to come up with this outcome? Is that available?

An official study released in August 2000 compared the outcomes for 2100 job seekers aged 18-24 years who were referred to Work for the Dole and a matched comparison group of job seekers not referred (*Work for the Dole Net Impact Study*, Department of Employment, Workplace Relations and Small Business).

- The off-benefit outcome rate (proportion who left income support altogether) for the Work for the Dole group averaged 30 per cent compared with 17 per cent for the comparison group, yielding a net impact of 13 percentage points. The vast majority of those who left benefits entered employment or education/training.
- The study concluded that the "WfD [Work for the Dole] program appears to have a significant motivational effect on job seekers to increase their job search activity."

An official study released in March 2010 used a net impact methodology in line with that suggested by the Productivity Commission and the OECD to estimate the effect of Work for the Dole and other types of labour market assistance (*Labour Market Assistance: a net impact study*, Department of Education, Employment and Workplace Relations). Findings include:

- Employment Preparation and Work for the Dole recorded the highest net impacts of any programme: 17.6 percentage points and 15.0 percentage points respectively.
- Off-benefit or reduced-benefit outcomes were recorded by:
 - 40.9 per cent of job seekers referred to (but not commenced in) Full-time Work for the Dole. This compared with 25.9 per cent of the matched comparison group (a 'referral' net impact of 15.0 percentage points).
 - 36.1 per cent of job seekers who commenced in Full-time Work for the Dole. This compared with 25.8 per cent of the matched comparison group (a 'commencement' net impact of 10.3 percentage points).
 - The referral effect of Full-time Work for the Dole was found to be evident in the four weeks immediately after referral.

These results are consistent with international experiences of similar mandatory work experience programmes.

I am asking for the methodology that you have used. Is that available?

The methodology for measuring the referral effect is to compare the outcome measure of interest, most typically, off-benefit or reduced-benefit at a specified time point after referral and after commencement for a Work for the Dole group and a valid comparison or control group of job seekers. Various matching methods can be used to construct the comparison group and statistical regression analysis is used to adjust for any remaining differences in job seeker characteristics between the groups. Results are generally insensitive to the matching method chosen.