

Housing assistance and economic participation

National Research Venture 1: Housing assistance and economic participation

Final Research Paper

authored by

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ABBREVIATIONS

ABS	Australian Bureau of Statistics
AHURI-3M	Australian Housing and Urban Research Institute Housing Market Microsimulation Model
CSHA	Commonwealth-State Housing Agreement
CRA	Commonwealth Rent Assistance
DHW	Department of Housing and Works
DSP	Disability Support Pension
EMTR	Effective marginal tax rate
FaCSIA	Department of Family, Community Services and Indigenous Affairs
FTB	family tax benefit
HA	housing assistance
HCF	Home Credit Fund
HILDA	Household, Income and Labour Dynamics Australia
ISP	income support payment
MIAESR	Melbourne Institute of Applied Economic and Social Research
MOA	mutual obligation activity
NILF	Not in the labour force
NRV1	National Research Venture 1
PPS	Parenting Payment Single
SIHC	Survey of Income and Housing Costs
SHA	State Housing Authority
TAFE	Tertiary and Further Education

EXECUTIVE SUMMARY

The overarching research question of National Research Venture 1 (NRV1) is:

How do housing assistance programs impact economic participation outcomes, once we control for the mediating effects that intermediary variables such as 'health' and 'neighbourhood' have on economic participation outcomes?

The potential employment impacts of the two key housing assistance (HA) programs – public housing and Commonwealth Rent Assistance (CRA) – are investigated using a mix of quantitative and qualitative approaches. In addition, policy simulations are conducted using the AHURI-3M microsimulation model and econometric models that shed light on how policy reform measures might impact economic participation behaviour.

Since 1982 the role of public housing has changed from a tenure offering working families affordable housing opportunities to a residual sector that targets HA on those with the greatest need. There has then been a marked change with working age public housing renters increasingly drawn from the ranks of those whose employment prospects are relatively poor. This increasingly stringent targeting is an important factor in explaining the deteriorating employment participation rates of male tenants. However, our modelling of employment trends indicates that female tenants are more employable now than 20 years ago, yet their actual employment participation rates have not changed.

To explain these findings we begin by measuring the contribution of HA programs to poverty and unemployment traps. Poverty traps arise when workers make an incremental change in their hours of work, but lose most of the additional earnings through taxes and withdrawal of income support payments (ISPs). Unemployment traps afflict non-participants who find that financial rewards on making a transition into work are eaten away by taxes and lost ISPs. Our evidence confirms that HA recipients' poverty and unemployment traps are generally 'deeper' than those experienced by other ISP recipients. We find that most employed CRA recipients with no dependent children are caught in poverty traps because they were subject to the Newstart or Youth Allowance upper taper rate of 70 per cent in 2002. CRA contributes to the problem by extending the income range over which a worker is caught in poverty traps. But CRA has only a small impact on the depth of poverty and unemployment traps. This is because reforms in 1987 removed the 'multiple stacking' of CRA and other benefit tapers that can blunt work incentives. The incidence of unemployment traps among non-participant HA recipients has also increased and in this case it is particularly evident among public housing tenants. Income related rents play an important role here, but are by no means the only or most important factor. The multiple stacking of taxation schedules and ISP tapers is the main cause.

Through in-depth qualitative interviews with 105 recipients of HA we found that social renters paying rents based on income understand how rents change if they go into paid work and do the calculations when considering a job. The calculation usually indicate that they are financially better off unwaged or, if they are able to, taking up casual or part-time paid work that gives them an extra income without affecting their rent (through 'rent holidays' for instance). In contrast, private renters (and community renters) in receipt of CRA do not consider this type of HA a barrier to entering paid work. They understand that CRA will decrease or disappear, but have not generally done the detailed calculations.

We estimate that one-quarter of public housing tenants caught in unemployment traps would 'escape' those traps if the link between rents and assessable incomes was cut, and CRA was extended to public housing tenants. State Housing Authorities (SHAs) have introduced changes to rent formulae that are designed to sharpen incentives to work. Western Australia has a working allowance that exempts a threshold amount of earnings per week from rent calculations. However, microsimulations conducted with respect to the working allowance suggest that impacts on work incentives are marginal at best. Another alternative would be to set rents at some minimum for all properties of a given size and type, and then adjust rent upwards as income increases above the threshold where entitlement to ISPs is lost. This would then harmonise the withdrawal of public HA with that of CRA, and avoid the multiple stacking of benefits and HA tapers that is a key source of unemployment and poverty traps. However, this proposal would introduce more complex and less transparent rent formulae.

We conduct modelling work to investigate whether CRA impacts labour market behaviour, using different regression modelling techniques, alternative measures of CRA and labour supply, and various sample designs. We consistently find a negative relationship that, on use of statistical tests of significance, turns out to be weak. The weight of evidence would seem to suggest that CRA has only small but negative impacts on employment outcomes. The case for reform to CRA in order to promote employment outcomes is not compelling.

One of the more innovative aspects of NRV1 is the use of Western Australia's SHA administrative records to explore welfare locks, the work incentive effects of income related rents and welfare dependence in relation to public housing. Welfare locks arise because income eligibility tests must be satisfied by applicants on wait lists, that is both wait turn lists and priority lists, when they reach the top of queues. Earnings from employment can then threaten their position in these queues, and deter job search and the acceptance of job offers while on wait lists. We find that welfare locks while prospective tenants are on wait turn lists can be large, and this is particularly evident among males where employment rates are impacted by as much as 12 percentage points. On the other hand, the public HA provided by rebated rents has relatively small effects on employment outcomes. Finally, we find that spells in public housing are typically longer for priority cases and those receiving high levels of HA, but shorter for employed tenants with relatively high earnings. The analysis indicates that over time the probability of exiting public housing tends to fall, reflecting the possible presence of duration (welfare) dependence among tenants. After approximately four years, the probability of exiting public housing is very low, in the order of 1 per cent over a month.

The welfare lock findings are subject to qualifications, one of which is that they are specific to Western Australia. Nevertheless the findings have potentially important ramifications in at least one state (Western Australia), and the similarities in institutional arrangements across SHAs suggest that implications have relevance in other jurisdictions. An important implication of our findings concerns the extension of income eligibility rules by, say, offering fixed term tenancies that are not renewable unless tenants can be shown to be in 'need'. This would catch tenants as well as applicants in welfare locks. While fixed term tenancies might be motivated by a desire to meet the urgent needs of applicants on wait lists, they could be counterproductive if they encourage tenants to 'game the rules' in order to renew tenancies.

A second policy concern is the existing application of income eligibility rules to wait list applicants that are the source of welfare lock effects. These could be addressed by the following reform proposals. First, SHAs apply income eligibility rules when an applicant joins wait lists. Regardless of subsequent income and earnings, applicants

admitted onto wait lists receive an offer of public housing, and the lease continues to offer security of tenure, regardless of income and earnings. Second, rents continue to be set at 25 per cent of assessable income or according to the more complex formula that adjusts rents once entitlement to ISPs is lost. However, the market rent cap is removed. If tenants secure employment and earnings such that rent formulae result in rents exceeding market rent, this is the amount that they are charged for their public housing dwelling. Our evidence on tenant turnover suggests that length of tenancy is negatively associated with rent paid and so the removal of the market rent cap should increase exit rates from public housing. This effect would be reinforced if the rent increment in excess of the market rent is deposited in a Home Credit Fund (HCF) that can be accessed on exit from public housing and used as a deposit on home purchase, or to meet bonds required by landlords of private rental housing or for education and training purposes. SHAs could be allowed to retain interest that has accrued on HCF deposits, and used for housing investment to help cut wait lists.

This is a radical reform package. A more modest proposal would be to allow tenants on the wait list to earn in excess of the maximum amount required to remain eligible, but for earnings to be offset against any future rental subsidy. That is, a similar formula as that used for assessing rent could be applied to applicants' earnings, but the notional rent increase (subsidy withdrawal) would be averaged over, say, the first 12 months of the tenancy once they enter public housing. Under this policy, tenants could accept short-term or even medium-term jobs without necessarily foregoing their place on the wait list. However, with greater economic participation, the value of the subsidy they will receive if they enter public housing will fall. For those whose engagement in the labour market leads to a more permanent increase in earnings, the value of their expected subsidy upon entry to public housing will fall substantially and they will be more likely to leave the wait list voluntarily. This reduces the risk of accepting job offers where the individual faces uncertainty about the associated ongoing earnings potential. The implementation of such a policy would, however, require more stringent monitoring of applicants' earnings than is currently undertaken.

NRV1 has also tested for potential synergies between Commonwealth 'welfare to work' reforms and HA. This investigation is motivated by a series of studies in the US which offer evidence in support of the hypothesis that 'welfare to work' reforms have bigger and more permanent impacts on the employment outcomes of long-term non-participants if they receive HA. Our research approach takes a sample of long-term unemployed who have reported participation in mutual obligation activities, and asks whether subsequent employment profiles are superior among recipients of HA. Our findings indicate that long-term unemployed Australians enrolled in mutual obligation activities are not more likely to achieve sustained employment gains if they are eligible for HA. This could be because those receiving HA are more likely to opt for education and training rather than employment assistance programs. The former seem to be generally less effective. A possibly more productive approach is to combine HA with targeted scholarship arrangements (funded from education budgets) for recipients to complete school and/or move on to other qualifications.

Our in-depth interviews with 105 HA recipients reveal that people do not make employment, housing and life decisions solely in response to financial incentives or disincentives. The decisions are shaped by cultural values, the way in which people understand and interpret these values, and consideration of a complex range of other factors, including the logistics of daily living. Respondents saw significant and often insuperable barriers impeding entry into paid work. A striking finding was a pattern of fractured and unstable employment and housing histories which, importantly, was linked with instability in family background and circumstances.

The four most cited barriers were mental and physical health problems, caring for children and family responsibilities, place/location and transport, and housing issues. The majority of interviewees with health problems suffered from poor mental health and considered their mental health status to be the most important factor in preventing them working. In addition, the stigma attached to mental health problems and the lack of social understanding about them, as well as lack of flexible working conditions, made it extremely difficult to get back into paid work. Most of the mothers interviewed strongly believed in staying at home to be there for their children well into their school years, particularly if they were the only adult with caring responsibilities. Most would only consider paid work that would fit around their caring and domestic responsibilities. Mothers' decisions about paid work also took into account the practical difficulties of combining paid work and mothering with arrangements to care for children before, during and after school hours, during school holidays and during periods of sickness. Overall, the financial and emotional costs of combining paid work and looking after children was a disincentive to taking up paid work.

We believe that these values and perceptions help to explain quantitative research findings that reveal a consistent pattern by gender. Our econometric evidence on welfare locks as well as the work incentive effects of rebated rents and CRA all show that women, and female parents in particular, are less responsive to financial variables representing work incentives. It seems likely that strongly held views about parenting, as expressed by many in our sample of female HA interviewees, are responsible. This same reasoning is also likely to be relevant to our finding that sole parents typically have longer spells in public housing.

Location is an important barrier to entering paid work, particularly where people do not own a car, do not drive or have lost their drivers' licence. This was a particular problem for the male interviewees, most of whom could not drive a car for various reasons. The consequence is that they found it difficult to access the low skilled jobs that they could apply for, both because of difficulty in getting to work and because many require a drivers' licence as a condition of employment. People living in areas that were heavily stigmatised, usually easily identified areas of public housing, found that location or postcode was a significant barrier to getting paid work. Private renters are concerned about the insecurity and instability of their housing. Public renters had the benefit of additional security which some found had settled their families so that they could then think about looking for work. Others found that public housing threw up other problems with neighbours that negated the anticipated benefits of security of tenure. They wanted to move back into private rental so that they could exercise more control over their circumstances.

Economic participation is not restricted to paid employment. Many of the women interviewed, and a third of the men, are doing or have done voluntary, unpaid work. Whilst there are exceptions, the men did unpaid work for short periods of time in order to improve their skills and better equip themselves for work. Women did voluntary work for longer periods when they were at home with their children because it was flexible, and could be fitted around their children's needs.

When asked what would make a positive difference in their ability to access paid work, the vast majority of interviewees said that they wanted to undertake paid work in the future but would need to study, take more courses, train or retrain, and update their skills. For some this was combined with other factors such as an improvement to their health, getting (or getting back) their drivers' licence or finding secure housing. In this sense, the main contribution of HA would seem to be in enabling security of housing in an appropriate location, such that people can feel established and able to

update their education as a precursor to finding a job that will provide the financial and social benefits of work.

There are other research directions that could build upon the work of NRV1. First, our evidence suggests that the large improvement in male employment participation rates as tenants make transitions into public housing is more likely due to welfare locks, than the security and stability attributes offered by public housing. Validating these findings across states and experimenting with alternative methods of diagnosing their cause should be an important item on future housing research agendas. Second, we have evidence that unemployment traps are much more likely to affect a partnered person if they have an unwaged partner. The partner that people choose to live with is then deserving of further analysis, as is the role of income segregation. Third, our in-depth interviews suggest that 'place' related factors are influential in shaping employment outcomes. The influences of spatial factors in shaping employment outcomes and the impacts of HA programs on labour market mobility are important areas of future research. Finally, given the richness of the information yielded by qualitative research, it is tempting to advocate follow-up interviews with the same panel of subjects to obtain a dynamic picture of how attitudes and perceptions evolve as HA recipients' housing pathways evolve. We were fortunate to be able to assemble and use panel data sets for longitudinal quantitative research in NRV1. It would be helpful and potentially insightful to explore evolving values, attitudes and perceptions employing longitudinal qualitative data.

1 INTRODUCTION

1.1 Purpose

This final research paper outlines the findings from a National Research Venture (NRV1) the focus of which is the relationships between housing assistance (HA) and economic participation. This introduction addresses the following elements of NRV1:

- The overarching research question;
- Policy concerns motivating the research;
- The structure of the program of research.

The venture addressed three shortcomings emphasised by a systematic review of the evidence base on HA and non-shelter outcomes completed in 2003 (Bridge et al., 2003):

- The lack of Australian evidence on the nature and significance of links between HA and non-shelter outcomes;
- The importance of using robust research methods (quantitative and qualitative) and materials (e.g. suitable data bases) to identify and measure key relationships that are thought to exist between HA and non-shelter outcomes;
- The need to provide an evidence base for policies and programs that address emerging Australian and state government concerns in relation to HA and non-shelter outcomes.

1.2 Overarching research question

The housing system and HA interventions not only aim to meet housing needs, they also contribute to higher level outcomes, such as improved social and economic wellbeing for individuals, families and communities. The Commonwealth government is seeking a better understanding of the contribution that HA interventions make to improving people's lives. NRV1 has focused on providing:

- An understanding of the importance of different aspects of housing and HA to economic participation outcomes;
- An understanding of how and for whom HA can be delivered and used as a tool to promote economic participation. This understanding will inform funding decisions and policy design (such as eligibility and targeting) particularly in the context of future Commonwealth-State negotiations around HA.

The NRV has been informed by a systematic review of the research literature on the relationship between HA and non-shelter outcomes (Bridge et al., 2003). That study presented a comprehensive listing of what we know about the impacts of HA on the following non-shelter outcomes:

- Work incentives;
- Other impediments to economic participation;
- Health;
- Crime, neighbourhood effects and social capital;
- Income and wealth distribution and rates of poverty;
- Housing market effects.

With a limited budget, NRV1 could not conduct sophisticated programs of research into each of these relationships. It was agreed to focus on the relationship between HA and economic participation outcomes, where the latter is broadly defined to include employment, as well as mutual obligation activities (MOAs) that have been introduced in recent welfare reforms. This decision was taken because:

- The government welfare reform agenda is very much focused on the role of income maintenance and subsidy programs in promoting higher rates of economic participation;
- The current Commonwealth-State Housing Agreement (CSHA) requires State Housing Authorities (SHAs) to design and implement reforms that will promote economic participation among public housing tenants.

The overarching research question is:

How do HA programs impact on economic participation outcomes, once we control for the mediating effects that intermediary variables such as 'health' and 'neighbourhood' have on economic participation outcomes?

The key HA programs of public housing and Commonwealth Rent Assistance (CRA), and their potential impacts on economic participation outcomes are investigated using a variety of research approaches, and reporting the findings and their implications is the main aim of this report.

1.3 Policy concerns

In the 20 years from 1982 to 2002 the employment participation rate of all working age persons increased from 67 per cent to 72 per cent.¹ As is well known, there are very different patterns by gender: the female rate increased sharply and the male rate declined. Less well known are the diverging trends by housing tenure. There was a particularly sharp increase in participation rates among women residing in households that are buying their home (from 54 per cent in 1982 to 75 per cent in 2002). On the other hand, employment participation rates among female public housing tenants have been flat (22 per cent in 1982 and 24 per cent in 2002). Among males there are small declines in the employment participation rate of homeowners (from 88 per cent to 85 per cent) and private rental tenants (from 82 per cent to 79 per cent), but a sharp decline among male public renters (from 67 per cent to 35 per cent).²

Despite the improvement in aggregate employment outcomes among the working age population, there has been an increase in the rate of jobless working age households that reflects a polarisation in the distribution of work. Once again there are sharply diverging trends by housing tenure. There has been a decline in the rate of jobless households among home purchaser households, but a sharp increase among households in public housing so that by 2002 around two-thirds of households in public housing were jobless. Since 1982 we estimate that the total number of jobless households increased by 312,069, and almost one-third of this increase is accounted for by households in public housing despite a small 6 per cent share of all working age households in 2002.³

¹ Estimates are generated from the Survey of Income and Housing Costs (SIHC). The SIHC was called the Income and Housing Survey in 1982, Survey of Income and Housing Costs and Amenities in 1990, Survey of Income and Housing Costs in 1996 and 2000, and Survey of Income and Housing in 2002.

² The employment rate estimates are almost the same when estimated on a population basis using population weights.

³ A working age household contains at least one adult of working age.

These patterns by housing tenure could simply reflect changes in the profile of tenants and homeowners. HA was restructured over the timeframe 1982-2002. Eligibility criteria for entry into public housing wait lists tightened as financial support for public housing declined and wait lists grew.⁴ On the other hand, there has been an increasingly important role for direct subsidies in private rental housing, as CRA has been expanded in scope. The consequence is a public housing stock that increasingly houses those with inferior employment prospects.

However, there is a growing overseas literature that explores whether HA and public housing in particular impacts on employment outcomes. In the UK, Hughes and McCormick (1987) suggest that public housing allocation policies are an impediment to labour mobility, restricting the ability to move between regions in response to regional unemployment differentials, and hence increasing structural unemployment. An emphasis in the US literature has been on the location of public housing in inner city areas that make suburban job opportunities inaccessible (Ong, 1998; Allard and Danziger, 2003). These concerns have prompted policy initiatives that offer portable HA designed to encourage suburban relocation, as in the federal government's Moving to Opportunity program (McClure, 2004). The location issue also arises with respect to fears that concentrations of the disadvantaged in public housing estates erode work ethics, exacerbate social problems and stigmatise tenants, with negative impacts on employment performance.

Work incentives can be blunted by the provision of HA in ways that increase effective marginal tax rates (EMTRs) and reduce hours of work.⁵ HA may even encourage economic inactivity, given that households receiving HA are more likely to be able to collect sufficient resources to survive without working. Furthermore, the eligibility criteria and rationing of public housing can be responsible for welfare locks created by 'up and out' rules that determine the continued eligibility of public housing tenants or those on wait lists (Stiglitz, 2000; Yelowitz, 2001).

There are opposing arguments that HA, including its provision in the form of public housing, can have positive employment effects (Van Ryzin, Kaestner and Main, 2003). By providing a secure tenure in an affordable dwelling, housing subsidy programs can assist employment prospects because of the responsibility and reliability that is implied by a permanent address, and avoidance of the disruptive effects of not having a permanent place to live (Lee, Becroft and Shroder, 2005). Furthermore, public housing programs can have on-site services (e.g. childcare, training) that help support employment, and neighbourhood initiatives such as these are also to be found in Australia.⁶

⁴ In 2004 204,247 persons were on public housing wait lists (SCRCSSP, 2005). This was an increase of only 1.0 per cent over the 1991 figure of 202,300 persons (Burke, 2002), but over this period eligibility criteria have been tightened.

⁵ For evidence on HA and employment outcomes in the US, see Ong (1998), Fischer (2000), Painter (2001) and Shroder (2002). In the UK, empirical estimates of the contribution of HA to EMTRs and replacement rates are presented in Giles, Johnson and McCrae (1997), and Pryce (1999) examines the link between work incentives and social housing. Norwegian evidence is offered in Nordvik and Ahren (2005).

⁶ SHAs commonly insert a tenant employment clause into contracts requiring successful tenderers to engage tenants, e.g. the Public Tenant Employment Program in Victoria requires successful contractors of cleaning and gardening contracts to employ tenants. Economic participation is also encouraged through community initiatives, including support for community development programs, local business engagement and community jobs programs. Key initiatives that have been introduced to overcome the digital divide include the establishment of neighbourhood technology centres in New South Wales and the 'Reach For the Clouds' project in Melbourne (Dalton and Ong, 2005).

Australian interest in the HA and employment issue was stimulated by the 2003 CSHA. Schedule 1 commits the states and territories to 'introduce rent policies that reduce workforce disincentives associated with the current link between earned income and rent' (Commonwealth of Australia Gazette, no. S276, 17 July 2003). There is not much Australian empirical evidence on which to base such a recommendation. Barrett (2002) finds that sole parent pensioners who are public housing tenants in New South Wales/Australian Capital Territory have a 32 per cent lower exit rate from spells on the sole parent pension, and this is attributed to the higher public HA in this state. Hunter (1995) finds a negative correlation between the proportion of males employed in census collection districts and the proportion of the population living in public housing. Whelan (2004) models labour supply decisions using microdata and concludes that there is some evidence CRA and public housing act to limit labour force participation, though the effect for the former is stronger. On the other hand, Hulse and Randolph (2005) conclude from a survey of 400 public and private renters that HA had little effect on private renters receiving CRA, but did affect a sizeable minority of public renters. Phibbs and Young (2005) track changes in the lives of 178 households in their first six months or so as public tenants. There was a mixed impact on employment outcomes, with some reporting a reduced need to work because of lower housing costs, and the opportunities this created were used for training, caring for children or undertaking voluntary work. Others felt more able to look for work because housing issues had been resolved. Financial factors did not appear to be the predominant consideration in their work decisions.

1.4 Structure of the report

This NRV1 final research paper contains nine chapters. In the next chapter the key background issues associated with the relationship between HA and economic participation are described in detail. First, changes that have been made to HA arrangements since 1982 are documented. We then review trends in employment participation among HA recipients and compare these trends with others who do not receive HA, and ask whether the declining rate of participation among public housing tenants is merely because the role of public housing has changed from a tenure offering 'working families' affordable housing opportunities to a residual sector that targets HA on those with the greatest need. Chapter 3 follows with a description of data sources and the quantitative and qualitative research methods that have been used during the course of NRV1.

Chapters 4 to 8 report results from both quantitative and qualitative analyses. Chapter 4 examines the contribution of HA programs to low-income traps faced by HA recipients in 1982 and 2002. It begins with a description of low-income trap measures, then analyses whether such traps worsened for HA recipients over the two decades. HA policy reform simulations that were conducted during the course of NRV1 are also described, and their impacts on low-income traps are reported.

Chapter 5 focuses on econometric modelling that has been undertaken to empirically estimate the impacts of HA on employment outcomes. The modelling approach re-estimates Whelan's (2004) model using multiple waves of the Household, Income and Labour Dynamics Australia (HILDA) Survey. We experiment with techniques that are designed to 'unbundle' the complex cause and effect interrelationships between HA and employment participation.

This is followed in Chapter 6 by the findings from a panel data analysis of public housing administrative records provided by Western Australia's Department of Housing and Works (DHW). These records are used in two key analyses. The first compares the labour supply of public housing applicants before and after entering

public housing. It searches for evidence of a welfare lock attributable to the application of income eligibility rules. The welfare lock hypothesis predicts that applicants will be deterred from accepting job offers (or opportunities that might increase earnings) for fear of losing eligibility while still on wait turn lists. The second analysis is a 'natural experiment' that exploits DHW occupancy rules. These govern the size of accommodation that will be offered to public housing applicants at the top of wait lists. An applicant will be allocated accommodation that as far as possible matches the number of bedrooms to family size and the gender mix of children. For example, a family with two children will be offered 2- or 3-bedroom accommodation depending on the gender mix of children and housing availability. A family in which both children are of the same gender will likely be offered 2-bedroom accommodation, while a family with one boy and one girl are more likely to be offered 3-bedroom accommodation. Hence, families that are observationally equivalent will receive different HA, conditional on the gender mix of children. This gender mix is a random event, such that parents of same gender and of mixed gender two children families will on average be alike in all respects, other than the HA they receive. This is an opportunity to conduct a laboratory type experiment, where other conditions affecting employment outcomes are held constant, enabling researchers to isolate the effect of different levels of HA.

Chapter 7 focuses on the impacts of MOAs on the economic participation outcomes of HA recipients. This chapter asks whether income support payment (ISP) recipients on MOA programs have different employment profiles conditional on HA status. A quantitative approach that exploits the panel nature of the HILDA Survey is complemented by qualitative evidence from interviews with HA recipients on their experiences with training and further study.

Chapter 8 looks in detail at the outcomes from those interviews conducted as part of the qualitative program of research. The qualitative analysis uncovers the constraints, motives and impediments confronting HA recipients that cannot be answered using secondary data sources, based on 105 interviews in Victoria and New South Wales. It explores recipients' own perceptions of the programs and impediments to participation in the labour market. Findings that help shed insight into unexpected or difficult to explain patterns in the quantitative data analyses are highlighted. This chapter also asks whether unwaged HA recipients substitute community participation for economic participation and, if so, what forms this takes. These are behavioural patterns that are difficult to get a handle on using secondary data sources.

Chapter 9 concludes this report by describing the challenges and policy responses to low economic participation levels among HA recipients. It outlines what the NRV1 research outputs suggest regarding reform options and their effectiveness, including the likely consequences of fixed term tenures and various rent reform options. It also proposes a public housing reform package that would relax all income eligibility criteria other than on entry onto wait lists, and a HCF to promote economic participation and independence.

2 THE POLICY CONTEXT

2.1 Housing Assistance programs in Australia

HA in the form of public housing is provided and managed by SHAs. The CSHA is the main funding source for public housing. It is an agreement made between the Commonwealth, state and territory governments to provide funding for HA for persons in need. The current CSHA runs from 1 July 2003 to 30 June 2008. Most funding under the 2003 CSHA is provided by the Commonwealth government, with the state and territory governments contributing additional funding to partly 'match' Commonwealth funding (SCRCSSP, 2005).

Public housing allocations are rationed according to eligibility criteria, and all SHAs operate wait lists in order to prioritise access. Applicants must generally be Australian citizens or permanent residents, must not own residential property and have to be living in the state or territory where the application is made (SCRCSSP, 2005). To initially qualify for public housing, the applicant household's income must be below an income limit threshold, which again differs by state and territory. SHAs typically have more than one wait list, with applicants sorted into different segments of need according to household type, preference for housing type and location. A priority wait list is operated in most states and territories for categories of acute housing need.⁷

Rents in public housing are set at levels that are in the vast majority of cases below market rents.⁸ Typically, tenants pay rents that are a fixed percentage of their assessable income, and SHAs employ somewhat different definitions of household assessable income. Assessable income generally includes the government benefit entitlements of the principal earner and their partner, but practice varies with respect to the fraction of income of other household members that is included.⁹

The public housing rent setting structure in the early 1980s was significantly different from the present. While typical rents are currently set at between 10 per cent to 15 per cent of assessable family payments and 25 per cent of other assessable income, the percentage of income that was assessed as rent back in the early 1980s depended on whether the income level fell below or above a base income level. The base income level was generally set at the state or territory minimum wage level. Tenants typically paid 20 per cent of income below the base level and up to 25 per cent of increments in income above the base level as rent. In most states, recipients of pensions paid up to 20 per cent of their income as rent. This is a potentially important change in the present context as it will act to blunt work incentives, given that rents now increase more steeply as tenants increase hours of work.

HA is also provided in the form of CRA to private rental tenants. However, it was not until the 1990s that this program covered more than a small minority of the working age private rental population. In 1982, only pensioners and long-term sickness beneficiaries were eligible, regardless of whether children were present. By 1990 persons who were in receipt of unemployment benefit or special benefit for at least 26 weeks and were married, or single and aged 25 or over, or single and aged 18-24 and

⁷ For a description of public housing wait list allocation systems by state and territory, refer to Wood et al. (2007, Appendix A, Table A1).

⁸ According to the SCRCSSP (2005), 87.6 per cent of public housing tenants paid rent below the market level as at 30 June 2004.

⁹ For a description of assessable income sources by state and territory, refer to Wood et al. (2007, Appendix A, Table A2). For a description of the rent calculation rules by state and territory, refer to Wood et al. (2007, Appendix A, Table A3).

no longer living at home, became eligible for CRA.¹⁰ Private renters with dependent children also became eligible if they received the family allowance supplement.¹¹ From 1996 onwards, renters with no dependent children must receive a pension or allowance in order to receive CRA as a supplement to their pension or allowance, and renters with dependent children must receive more than the minimum (now base) rate of their family payment in order to receive CRA as a supplement to their family payment. We estimate, using a tax benefit simulator and the confidentialised unit record files of the ABS Survey of Income and Housing Costs (SIHC), that only 3.6 per cent of working age renters (4.1 per cent of private renters) were eligible for CRA in 1982 (see Table 2.1).¹² By 2002 19.3 per cent of working age renters (21.3 per cent of private renters) were eligible.

Table 2.1: Working age renters, 1982-2002^a

	1982	1990	1996	2000	2002
Number of public renters ('000s)	331	403	385	364	358
% of all renters	11.1	12.4	10.8	10.1	9.6
Number of private renters ('000s)	2,638	2,853	3,175	3,227	3,368
% of all renters	88.9	87.6	89.2	89.9	90.4
Number of renters ('000s)	2,969	3,256	3,560	3,591	3,726
Number of CRA eligible renters ('000s)	108	220	632	697	717
% of all renters	3.6	6.7	17.7	19.4	19.3

Source: Authors' own calculations from 1982, 1990, 1996-97, 2000 and 2002 SIHCs.

Note:

a. Working age is 15 to 64 years and non-dependent. SIHC population weights have been used to translate sample numbers into population estimates.

Currently CRA eligibility results in an entitlement once rent exceeds a minimum threshold that varies according to household size and composition; it also varies according to whether the recipient is eligible for family payments (now family tax benefit (FTB)) or a pension or allowance. The thresholds are more generous for families receiving FTB. The CRA is set at 75 cents for every dollar of rent up to a maximum threshold that also varies according to household size and composition. Entitlement is fixed across the income range within which the household retains eligibility for the pension, allowance or family payment that acts as a 'passport' to CRA eligibility. It is then withdrawn at the same taper rate as is applied in determining withdrawal of the passport pension, allowance or family payment.¹³ This is an important aspect of the program as it avoids the multiple stacking of CRA and other benefits, which arises when two or more income support programs are withdrawn

¹⁰ FaCSIA (2003), '5.2.1.40 Additional Benefit for Child & Mothers & Guardian's Allowance & RA – November 1984 to Present Date', *Guide to Social Security Law*, http://www.facsia.gov.au/guides_acts/ssg/ssguide-5/ssguide-5.2/ssguide-5.2.1/ssguide-5.2.1.40.html (accessed 23/02/07)

¹¹ FaCSIA (2007), '5.2.4.40 RA (families with children) – December 1987 to Present Date', *Guide to Social Security Law*, http://www.facsia.gov.au/guides_acts/ssg/ssguide-5/ssguide-5.2/ssguide-5.2.4/ssguide-5.2.4.40.html (accessed 23/03/07)

¹² The estimates use a tax benefit simulator that is part of a microsimulation model of the Australian housing market that is described in Wood, Watson and Flatau (2006). The simulator has now been designed for application to the SIHC for the years 1982, 1996, 2000 and 2002, and incorporates the contemporaneous tax and income support programs and their parameters. The tax measures and programs that are included in the simulation are listed in Wood et al. (2007, Appendix B, Table B1).

¹³ So, for example, a recipient of Newstart Allowance in 2002 would have CRA withdrawn at the rate of 70 cents per one dollar increase in assessable income.

incrementally across overlapping income ranges. Multiple stacking can cause low-income traps in the form of high EMTRs and replacement ratios, particularly when they interact with income taxation. The avoidance of multiple stacking is an important reform to CRA that was introduced in 1987. Previously, entitlement to CRA was determined by reference to separate income means-test rules that could overlap those applied to income support programs.¹⁴

Table 2.2 reports estimates of the financial importance of HA relative to total gross income. Public housing tenants typically benefit from assistance that in 2002 was 22 per cent of gross income; working age singles in public housing receive assistance that was more than one-quarter of their gross income. The financial assistance provided by public housing's rebated rents is then substantial and generally more generous than that received by CRA eligible private rental tenants, who typically benefit from assistance that in 2002 was 13 per cent of gross income. The only income unit type to be more generously treated under CRA is couples. The estimates in Table 2.2 establish the important point that HA programs make a substantial contribution to the economic wellbeing of Australian households. This is particularly true of singles and sole parents. It is then surprising that assistance programs of such importance have attracted so little attention in Australian research and policy debates on 'welfare to work' and work incentives. There are also some distinctive characteristics of HA programs that make them interesting and challenging for policy makers and researchers to study. We address these in the next section.

Table 2.2: Income unit ha as a percentage of gross income from all other sources^a for working age income units^b that receive HA, by HA type and income unit type, 2002-03, per cent

<i>Income unit type</i>	<i>Private renters</i>	<i>Public renters</i>	<i>All</i>
Couple with dependent children	8.7	4.2	7.8
Couple with no dependent children	9.2	4.2	7.5
Sole parent	10.8	20.9	14.0
Single	15.7	28.2	20.1
All ^c	12.7	21.8	15.6
Sample	1,067	577	1,644
Population ('000s)	803	374	1,176

Source: Authors' own calculations from 2002 SIHC

Notes:

a. Gross income from other sources comprises income and government benefit entitlements of the income unit excluding HA. An income unit comprises adults and their dependent children who can be expected to share income. A household can then contain two or more income units, such as unrelated adults living independently of their parents and sharing a house.

b. Working age income units contain at least one non-dependent person aged 15 to 64

c. We are able to derive similar estimates using Wave 1 of the HILDA Survey. HA is 11.1 per cent, 16.2 per cent and 13.1 per cent of income unit gross income for private renters, public renters and all eligible income units respectively.

¹⁴ A more detailed description of the CRA program that also presents tables of rent thresholds for particular groups of eligible tenants can be found in Wood, Forbes and Gibb (2005).

2.2 How do housing assistance programs impact work incentives? Theory

The standard approach in economics treats HA like any other ISP that is withdrawn incrementally once income exceeds a threshold. This is best explained with reference to CRA as it is less applicable to public housing. Since CRA is incrementally withdrawn with every dollar increase in income above a threshold, the so called 'price' of leisure (hours spent not working) is reduced by the assistance, and work effort can fall. In this framework, economists treat work and leisure just as any other good or service. Leisure has a price that is the net wages foregone as a result of not working. Demand for leisure will then increase when its price is reduced by the incremental withdrawal of CRA. The effect is more pronounced if there is interaction between CRA, taxation and other income support programs because multiple stacking will magnify reductions in the price of leisure over the relevant income range.

There are objections to this analytical framework. The treatment of all time spent not working as leisure ignores productive activities in the home such as childcare or care for the elderly. The fall in net wages due to withdrawal of CRA might also prompt substitution of voluntary activities that benefit the community. The assumption that leisure is the only alternative to work can then be misleading and could unfairly caricature those caught in low-income traps.

The approach is also inadequate when used to address the work incentive issues confronting public housing tenants. Public HA is closer to a 'pure' in-kind transfer, where assistance is provided in the form of a 'take it or leave it' bundle of shelter services, than a 'pure' cash transfer in which support is received in the form of a cash sum that is spent by the recipient on consuming goods and services (Whelan, 2004). The distinction is important because in-kind transfers can cause work effort to increase if the assistance is provided in a form that is complementary to work.¹⁵ Furthermore, in-kind transfers typically impose more of the in-kind transfer than would be chosen at market prices and an equivalent cash transfer. Increases in earnings raise the value of the in-kind transfer, and drive real income up by more than the dollar value of the boost to earnings. The incentive to increase hours of work is then greater under the in-kind assistance than with an equivalent cash transfer (Murray, 1980; Schone, 1992).

A key feature of public HA is that demand exceeds supply. The stock of public housing is then rationed with potentially important selection and rationing effects. The theory is illustrated in Figure 2.1. To become eligible for public housing an applicant must have income less than or equal to Y_E which corresponds to H_1 hours of work, assuming a uniform wage rate w . A private rental tenant who secures offers of employment $H \leq H_1$ is eligible for Commonwealth income support programs that give cash transfers OA . It is assumed these are gradually withdrawn at incomes $Y > Y_E$, and the hours of work-income choices are identified as the locus of points ABCD in Figure 2.1, with all ISP withdrawn when income reaches Y^* .

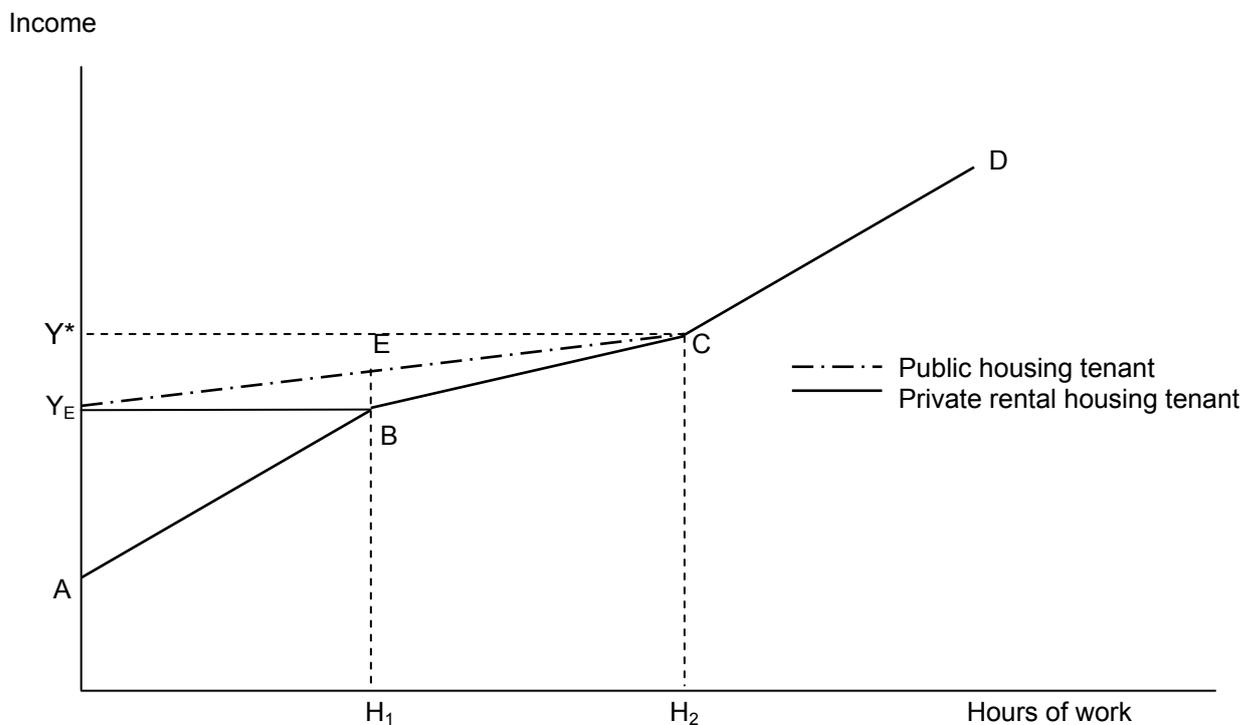
The private rental tenant with $H \leq H_1$ will also be admitted on to public housing wait lists, and this is a potentially appealing prospect, given public HA of monetary value AY_E that would place successful applicants on the hours of work-income locus Y_EECD

¹⁵ In-kind assistance in the form of a nationwide travel concession could be complementary with leisure if it encourages holidays. On the other hand, HA could be complementary with work if it provides a secure and more spacious base around which to study, arrange job search, childcare, travel to work arrangements and so on. There is a succinct discussion in Van Ryzin, Kaestner and Main (2003) of the potential enabling and hindering effects of HA programs.

that offers higher income (inclusive of HA) at all hours of work $H < H_2$.¹⁶ But the applicant must wait before an offer of public housing is made, an offer that can be on a 'take it or leave it' basis, and the longer the wait time, the lower is the prospective value of public HA. There can then be selection effects, if those who can find work that permits the purchase or rent of affordable housing in private markets screen themselves out of the program.¹⁷

Eligible households willing to wait are admitted onto public housing wait lists and are subject to 'up and out' rules that are the source of a 'welfare lock' (Stiglitz, 2000). SHAs enforce income eligibility rules to ensure that progression to the top of the lists is targeted on households with incomes $Y \leq Y_E$. Applicants accepting offers of work yielding $Y > Y_E$ will become ineligible and lose their place on the list. The application of such rules creates a 'notch' (equal to EB in Figure 2.1) at H_1 , the work hours where income reaches Y_E . The abrupt loss of eligibility deters acceptance of offers of work at $H > H_1$, and is then the source of welfare locks.

Figure 2.1: Public housing and work incentives



Source: Wood et al. (2007)

The relationship between public HA and hours of work is not straightforward enough to be analysed in a standard neo-classical economics choice framework that ignores selection effects and welfare locks. On the other hand, there are sound reasons for expecting employment effects that are grounded in choice theory. In addition, there

¹⁶ For convenience, the public HA is assumed to be withdrawn once income reaches Y_E and becomes zero at $H_2 Y^*$, and the sum of the cash transfer and public HA is assumed equal to OY_E . Note that the difference between market rent and rebated rent is public HA, and it is added to other sources of income for the purposes of this analysis. Private renters can be eligible for CRA, and this program has been ignored in Figure 2.1. Since it is typically less generous than public HA (see Table 2.2), its inclusion would not alter propositions based on Figure 2.1.

¹⁷ Rationing can then ensure targeting on the neediest (Blackorby and Donaldson, 1988), though Newman and Harkness (2002) cite US evidence that admission into public housing is unrelated to its expected benefits to the household.

are subtle but tangible benefits from HA that can promote economic participation. This makes HA programs and their relationship to employment a challenging and interesting one to study.

2.3 How are Commonwealth and state governments addressing work incentive issues?

In recent years, 'welfare to work' reform has been an extremely important item on Commonwealth and state governments policy agendas. As a result, various policies have been implemented at both Commonwealth and state levels that address the issue of work incentives.

The Commonwealth government's MOA program is based on the principle that unemployed persons should participate in activities that help improve their employability and make a contribution to the community in return for the receipt of unemployment benefits. MOAs began in 1998 after implementation of the Work for the Dole pilot in November 1997. The program required persons aged 18 to 24 who had been on unemployment benefits for six months or more to participate in an approved economic activity in order to continue receiving their benefit. It has subsequently been expanded to include more categories of unemployed, including persons aged 25 to 34 who have been receiving unemployment benefits for more than a year (Curtain, 2000). The range of approved MOAs includes employment and community participation, training or assistance programs (Feeny et al., 2007).

In the 2005-06 budget, the Commonwealth government announced a 'welfare to work' reform package that contained a range of initiatives designed to increase workforce participation among disabled persons, sole parents, mature age job seekers (50 or over) and the long-term unemployed. The initiatives included changes to the ISP structure and increased employment services.

For both disability support pension (DSP) and parenting payment recipients, eligibility rules have been tightened for those who apply for DSP or parenting payment after July 2006. Pre-July 2006 DSP recipients will continue to receive DSP with no work obligation if they are incapable of 30 hours of work per week. However, post-July 2006 DSP applicants will receive DSP only if they are assessed as being incapable of 15 hours of work per week. Post-July 2006 DSP applicants assessed as being capable of 15 or more hours of work will receive Newstart Allowance instead of DSP and have to fulfil activity test requirements by seeking part-time work. Post-July 2006 single (partnered) Parenting Payment applicants will receive Newstart Allowance after their youngest child turns eight (six) (Australian Government, n.d.). Under the new arrangements, the income range over which Newstart Allowance is reduced by 50 cents in the dollar has been extended from \$62-\$142 to \$62-\$250 per fortnight. For assessable incomes above \$250, it is reduced by 60 cents in the dollar rather than 70 cents.

Over the years, HA initiatives have also been implemented at both Commonwealth and state levels to encourage workforce participation. The CRA structure has been modified to prevent multiple stacking of CRA and other ISPs. A major change in the CRA structure, which has impacted on work incentives, was the removal of a separate CRA income test in 1987.¹⁸ Back in the early 1980s, CRA was paid at the rate of 50 cents for every dollar of rent paid above the specified minimum rent threshold, less half the assessable income¹⁹ of the income unit, and it was capped at a maximum

¹⁸ The separate income test was removed on 9 July 1987.

¹⁹ Assessable income was at this time narrowly defined as private income that excluded government benefits.

rate.²⁰ This constituted a separate test from pensions and allowances and caused multiple stacking of CRA and other ISPs over the same income range. CRA is now paid as a supplement to a pension or allowance and there is no separate income test. Eligibility for a pension or allowance became a 'passport' to eligibility for CRA and the latter is now withdrawn only when the pension or allowance entitlement to which it is attached cuts out. When Youth Allowance was introduced on 1 July 1998, CRA eligibility was also extended to full-time students under the age of 25 (Burke, Pinkney and Ewing, 2000). This change removed a financial penalty incurred by those in this age group who chose full-time study rather than unemployment.

State governments have also introduced reforms to public housing policy that aim to encourage workforce participation. Various SHAs have implemented rent holidays that reduce the financial disincentives associated with rent increases when a tenant moves into employment. Queensland was one of the first states to introduce rent holidays back in 1994. Under the New South Wales Tenant Employment Incentive Scheme, an unemployed tenant is entitled to a grace period of up to 12 weeks during which rent is fixed following transition into employment. There is a 16-week rent freeze for tenants and residents of neighbourhood renewal areas who gain employment. The Northern Territory's Employment Incentive Scheme phases rent increases over the first six months following an unemployed person's acceptance of a job offer. Queensland and Western Australia deduct a proportion of earned income from the assessable income used in rent calculations. In Queensland, a tax allowance scale is applied to earned income so that the amount of tax paid on the first \$20,800 per year is removed before income is assessed for rent payments. In Western Australia, an open-ended weekly working allowance of \$30 is deducted from the assessable income of unemployed, non-disabled tenants who gain employment. For disabled tenants, the working allowance is \$50.²¹ In recent years some SHAs have tried to break up large concentrations of social housing to encourage community mix. It is hoped that unemployed social housing tenants will make employment gains because of more favourable peer group pressure and the benefits from informal networking with employed residents in the neighbourhood. SHAs also provide indirect support for economic participation through community initiatives, including support for community enterprise, community development programs, tenant participation in decision making, bridging the digital divide, local business engagement and community jobs programs (Dalton and Ong, 2005).²²

2.4 Housing tenure and employment participation 1982-2002

How has employment been distributed across households in different housing tenures and how has it changed over the timeframe 1982-2002?²³ Figure 2.2 documents the longer run trends in employment participation among working age adults and compares male and female public housing tenants with male and female private renters and homeowners. The data in Figure 2.2 show that female and male homeowners in 2002 were more likely to be employed than private renters, who in turn had much better employment outcomes than public housing tenants. In 2002 more than nine out of 10 working age males purchasing their home were employed,

²⁰ FaCSIA (2007), '5.2.2.20 Additional Payments – April 1943 to Present Date', *Guide to Social Security Law*, http://www.facsia.gov.au/guides_acts/ssg/ssguide-5/ssguide-5.2/ssguide-5.2.2/ssguide-5.2.2.20.html (accessed 18 September 2007).

²¹ See Chapter 4 where simulations of the impact of Western Australia's working allowances are reported.

²² For more details, see Dalton and Ong (2005).

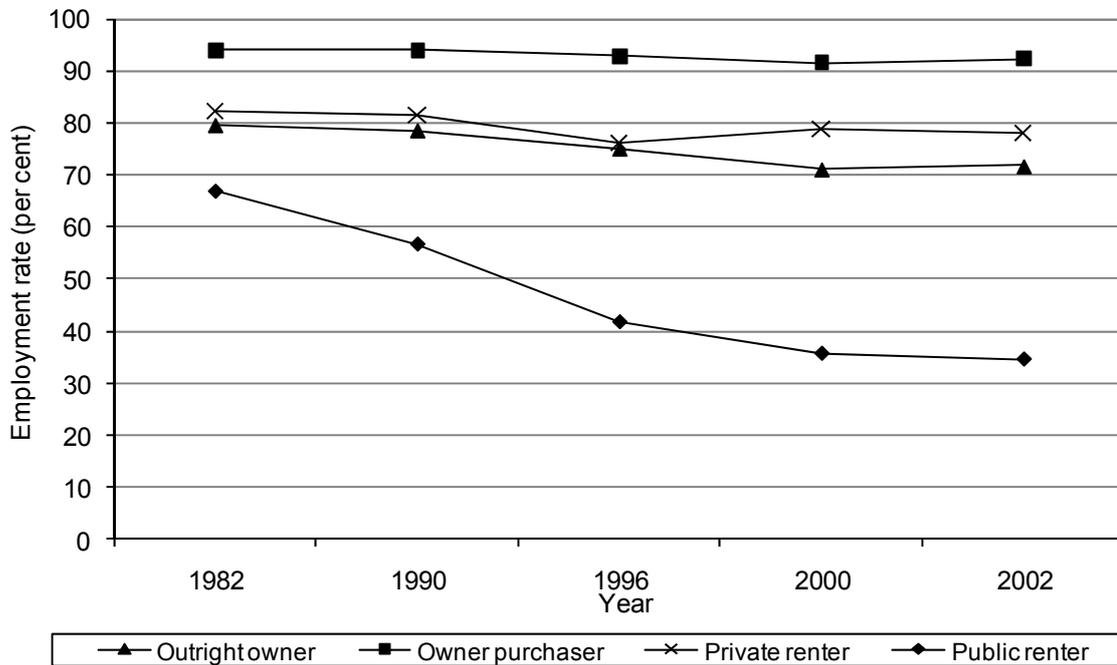
²³ The timeframe is a convenient one corresponding to the releases of successive SIHCs, the data source used for the analysis in this section.

but in public housing only just over one-third had jobs. Among females a similar contrasting outcome is apparent; about three-quarters of working age females purchasing their homes had jobs, but only one-quarter of working age female public housing tenants.

Also apparent from Figure 2.2 is deterioration in the relative employment outcomes in public housing. Back in 1982 the employment rate differential between males (females) who are owner purchasers and public housing tenants was 27 percentage points (33 percentage points). The employment gap widened to 58 percentage points (51 percentage points) for males (females) in 2002, because employment rates among male public renters fell markedly, while female public renters' employment participation rates failed to match large increases among female owner purchasers.²⁴

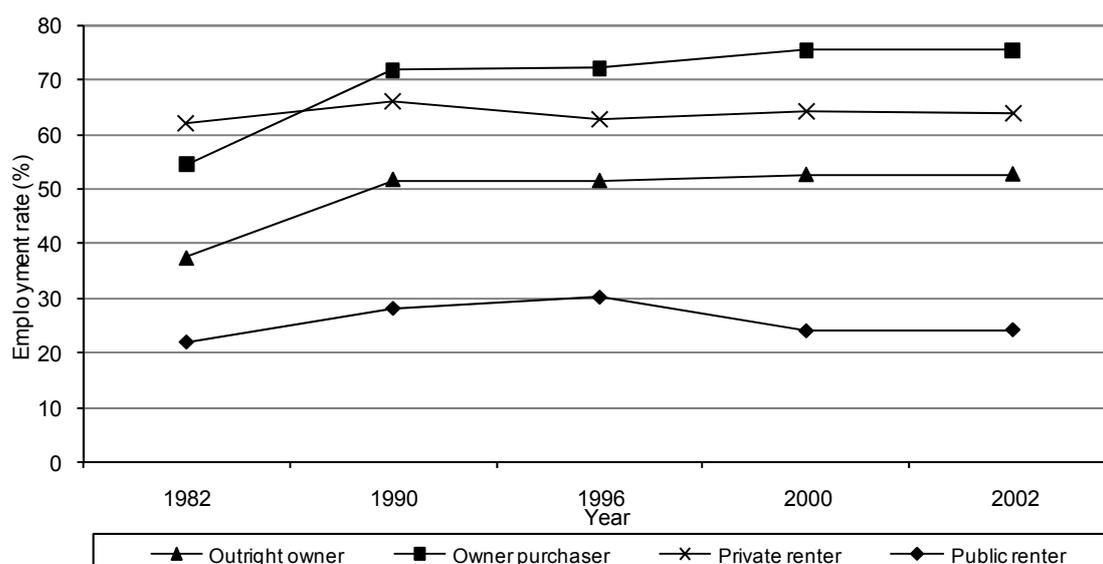
Figure 2.2: Employment rate^a of working age persons^b, by gender and housing tenure^c 1982-2002, per cent

(a) Males



²⁴ Similar trends are apparent in the UK where Wadsworth (1998, Table 1) has profiled employment performance by housing tenure over the timeframe 1979-95. The divergence in female employment rates by tenure is even wider, with participation falling by 18 percentage points for women in public housing, but increasing by 14 points for female homeowners.

(b) Females



Source: Authors' own calculations from 1982, 1990, 1996-97, 2000 and 2002 SIHCs.

Notes:

- a. The employment participation rate is the percentage of working age persons who are employed full-time or part-time. Trends very similar to the employment participation rate are observed for the economic participation rate (that includes those studying full-time), with the latter typically a couple of percentage points higher. Estimates are available from the authors on request.
- b. There are 25,861, 24,366, 11,534, 10,266 and 15,039 working age persons in the 1982, 1990, 1996, 2000 and 2002 samples, respectively.
- c. The working age sample comprises outright owners, owner purchasers, private renters, public renters and rent-free persons. Outright owners are persons who own their home outright; owner purchasers are owners who are still paying off their mortgage; private renters are persons renting from any landlord apart from a SHA; public renters are persons renting from a SHA; rent-free persons are persons who neither own nor pay rent. The rent-free are not included in Figure 2.2.

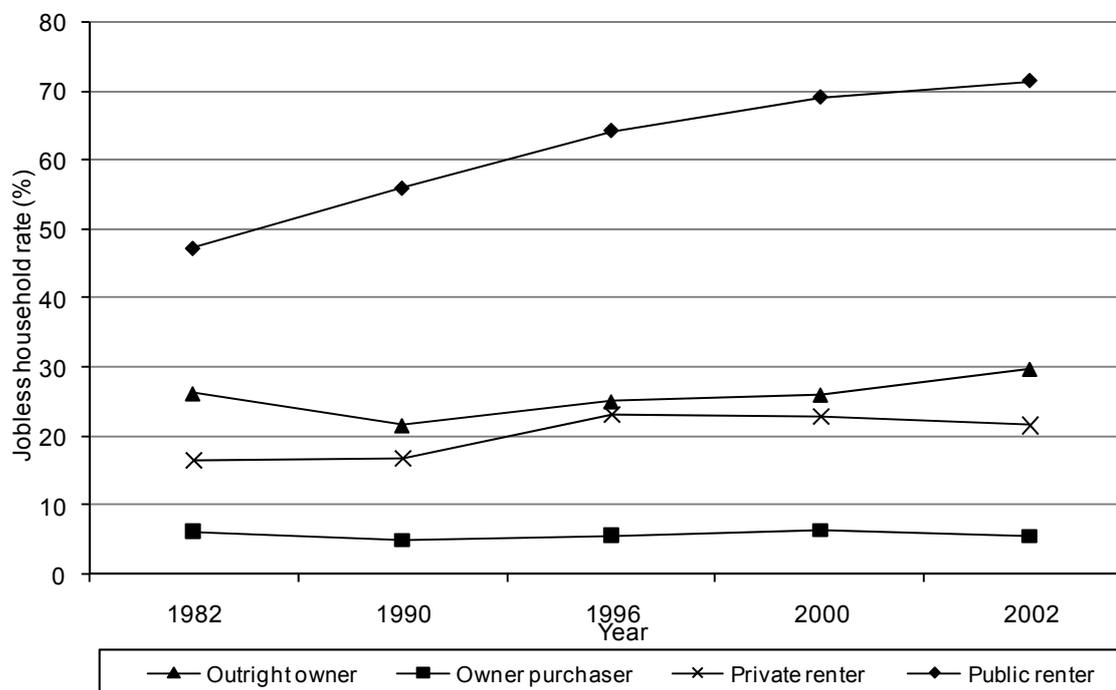
The rate of employment participation among working age adults increased from 67 per cent in 1982 to 72 per cent in 2002, yet the jobless household rate also increased from 17 per cent to 20 per cent over the same period.²⁵ These apparently discordant patterns have been observed in the UK as well as Australia (Gregg and Wadsworth, 2000). Joblessness in households, particularly those with children, is a serious concern because of potentially negative impacts on these children (Gregory, 1999; Dawkins, Gregg and Scutella, 2001). There are demographic drivers, most prominent being the increasing incidence of lone parent and single person households, but Dawkins, Gregg and Scutella (2005) estimate that over the timeframe 1982-2000 only 20 per cent of the increase in rates of joblessness is due to demographic shifts.

Figure 2.3 documents trends in the rate of jobless households by housing tenure for the period 1982-2002. The data reveal that back in 1982 just under one-half of public housing households were jobless, but this increased to more than two-thirds (71 per cent) by 2002. The 2002 rate of jobless households was relatively low at 6 per cent of owner purchaser households, but reaches 22 per cent of private rental households

²⁵ Dawkins, Gregg and Scutella (2002) find that the percentage of working age households that are jobless increased from 12.7 per cent to 16.3 per cent between 1982 and 1997. Our estimates show the same trend but are slightly higher in each year. Our definition differs from Dawkins, Gregg and Scutella (2002) in that we define a female aged under the minimum Age Pension age as being of working age, but they define a female aged 15 to 59 as being of working age. The minimum Age Pension age varies across the years for females.

and an even higher 30 per cent of outright owner households. There is then a very uneven distribution of work across households by housing tenure.²⁶

Figure 2.3: Percentage of working age households that are jobless, by household housing tenure, 1982-2002^a



Source: Authors' own calculations from 1982, 1990, 1996-97, 2000 and 2002 SIHCs.

Note:

a. Working age households are households in which there is at least one working age person. Both single-income unit households and group (or multi-income unit) households are included. A working age person is defined as a person at least 15 years of age but under the minimum Age Pension age and not in full-time study. The minimum Age Pension age for males is 65 years. The minimum Age Pension age for females was 60, 60, 60.5, 61.5 and 62 years in 1982, 1990, 1996, 2000 and 2002 respectively.

Once again there is deterioration in relative jobless rate outcomes in public housing. In 1982 the jobless rate differential between owner purchaser and public housing households was 46 percentage points. In 2002 the gap had widened to 64 percentage points, and it also widened with respect to households in private renting and in outright ownership. Public housing jobless rates continued to increase through the 1990s despite generally buoyant labour market conditions. Jobless rates among households purchasing or privately renting their home declined from 1996 onwards in the case of private renters, and from 2000 onwards in the case of purchaser households.²⁷

How does the socioeconomic and demographic profile of working age households in public housing compare with the rest of the 2002 working age population, and how has it changed since 1982? The data in Table 2.3 show that the 2002 working age population in public housing has a female gender orientation that is somewhat older

²⁶ There is a similar polarisation with respect to the rate of 'job rich' households, that is, those where all working age adults are employed. In 2002 job rich households as a percentage of all households in a housing tenure were 74 per cent in the owner purchaser tenure, 64 per cent in the private rental tenure, 53 per cent in the outright ownership tenure and 22 per cent in the public housing rental tenure.

²⁷ Outright owner households are an exception in the private housing sector, see Figure 2.3.

than other tenures and much less well qualified, with 72 per cent of public housing tenants lacking post-school qualifications as compared to 45 per cent of homeowners. Differences in demographic profile are most evident in relation to income unit type; sole parents now comprise one-quarter of public housing tenants, but 3 per cent of homeowners. Only 38 per cent of tenants are married, and an even lower 22 per cent are married and have children. The comparable figures for homeowners are 86 per cent and 45 per cent. Finally, public renters are now more likely to live in capital cities than other households, and there are high rates of DSP receipt among public housing tenants; a take-up rate of 27 per cent among public housing tenants is more than six times the 4 per cent rate among homeowners.²⁸

Since 1982 the role of public housing has changed from a tenure offering working families affordable housing opportunities to a residual sector that targets HA on those with the greatest need. Back in 1982 a majority of working age tenants belonged to families with children, even more so than homeowners, their chances of a capital city location were little different from that of private renters and homeowners, and their qualification profile was not far out of line with that of private renters. But since 1982 the percentage of public housing tenants with no post-school qualifications has remained constant at roughly three-quarters of the public housing population, whereas the educational qualifications of the working age population as a whole have improved significantly. The location of public housing tenants has undergone change, with a disproportionately high capital city residence by 2002. Finally, the proportion of working age tenants eligible for income support programs has shot up, as evidenced by an increase from 8 per cent to 27 per cent in the proportion receiving DSP. There has then been a marked change with working age public housing renters increasingly drawn from the ranks of those whose employment prospects are relatively poor. But does this explain all or even most of the employment differential documented in Figures 2.2 and 2.3?

²⁸ Differences with respect to country of birth are unremarkable. The profile of private renters is typically intermediate between that of public renters and homeowners.

Table 2.3: Profile of working age persons, by housing tenure, 1982-2002, per cent by column^a

		<i>Owner</i>		<i>Private renter</i>		<i>Public renter</i>		<i>All</i>	
		<i>1982</i>	<i>2002</i>	<i>1982</i>	<i>2002</i>	<i>1982</i>	<i>2002</i>	<i>1982</i>	<i>2002</i>
Gender	Male	47.8	48.5	54.3	52.7	40.5	38.9	50.0	50.2
	Female	52.2	51.5	45.7	47.3	59.5	61.1	50.0	49.8
Age band	15-24	4.0	1.9	47.8	26.6	9.9	5.3	21.0	13.5
	25-34	24.9	18.6	29.3	36.1	32.9	21.6	26.1	24.2
	35-44	27.9	28.2	11.5	20.2	22.9	26.6	21.5	24.3
	45-54	22.0	29.4	6.8	11.1	17.8	23.8	16.4	22.0
	55-64	21.2	22.0	4.7	6.0	16.5	22.8	15.1	16.0
Highest post-school educational qualification	Bachelor degree or higher	7.0	19.2	6.0	18.4	0.8	3.3	6.3	18.0
	Other ^b	36.2	36.1	28.0	30.2	22.3	23.9	32.3	33.4
	No post-school qualification	56.8	44.7	65.9	51.4	76.9	72.8	61.4	48.6
Income unit type	Couple with dependent children	54.9	45.2	22.0	20.8	52.2	21.5	41.6	34.3
	Couple with no dependent children	34.7	40.4	13.8	21.2	21.6	16.4	26.2	31.2
	Sole parent	1.9	2.6	4.4	7.4	15.0	25.0	3.2	4.7
	Single	8.5	11.8	59.8	50.6	11.1	37.1	29.0	29.8
Married/de facto									
Number of dependent children	Zero	43.3	52.1	73.6	71.8	32.7	53.5	55.2	61.0
	One	17.4	16.7	10.7	13.3	18.3	19.7	14.6	14.8
	Two	24.4	21.3	9.9	9.1	27.3	14.6	18.7	16.1
	Three	11.4	7.8	4.2	4.3	13.6	7.3	8.5	6.2
	Four or more	3.5	2.2	1.6	1.4	8.1	4.9	3.0	1.9
Region ^c	Capital city	38.4	39.3	37.5	35.6	39.3	48.2	39.3	38.1
	Rest of state	61.6	60.7	62.5	64.4	60.7	51.8	60.7	61.9
Country of birth: Australia		71.0	71.8	77.7	71.5	70.3	74.2	73.9	72.6
DSP recipient		1.7	3.6	2.0	4.5	8.1	27.3	2.2	4.6
Population ('000s)		5,385	7,234	2,638	3,368	331	358	9,247	12,088

Source: Authors' own calculations from 1982 and 2002 SIHCs.

Notes:

a. Refer to the notes to Table 2.1 and Figure 2.2 for definitions of working age persons and housing tenure respectively. These measures are calculated from population estimates that have been generated by applying weights that act as benchmarks for the population. Refer to Wood et al. (2007) for sample numbers.

b. Other qualifications include undergraduate diploma, associate diploma, skilled vocational qualifications and basic vocational qualifications.

c. Capital cities include Sydney, Melbourne, Brisbane, Adelaide and Perth. Rest of state includes the rest of New South Wales, rest of Victoria, rest of Queensland, rest of South Australia, rest of Western Australia, Tasmania, Northern Territory and Australian Capital Territory.

2.5 Modelling employment participation 1982-2002

We address this question by adopting a research approach designed by Wadsworth (1998) to examine the same issue in the UK. This involves the use of regression techniques to model the employment outcomes of working age adults and their relationship to demographic, socioeconomic and human capital (education, skills and experience) variables. The model estimates are used to predict employment outcomes as a function of these variables, and to generate adjusted employment rates for working age adults resident in the different housing tenures. The adjusted employment rates control for the fact that public housing tenants are less qualified and more likely to be disabled or sole parents, all characteristics making it more likely for them to be unemployed or not in the labour force (NILF). Inter-tenure differentials in adjusted rates assume that the processes determining employment outcomes are the same regardless of tenure, and the adjusted employment rate gaps are then attributable to differences in measurable inter-tenure characteristics. If public housing tenants were less employable in 2002 than 1982 because qualifications and so on have fallen behind those of residents in other tenures, the adjusted employment rate gaps will correspond closely to the actual gaps in employment rates. Furthermore, the adjusted rates will closely track the actual rates over time. The list of variables that are used in the regression modelling is a somewhat more expanded version of those listed in Table 2.3. This list of variables, technical details on estimation methods and a comprehensive discussion of the results can be found in Wood et al. (2007).²⁹

Figure 2.4 shows the adjusted employment rates of males by housing tenure. The adjusted rates of male public renters decline sharply and also deteriorate relative to males in other tenures, indicating that SHAs are now housing much less employable males because of inferior human capital and other significant impediments to employment. The trends are starkly illustrated by considering male owner purchasers back in 1982, with adjusted employment participation rates that are 19 percentage points greater than male public tenants. This gap widens dramatically to 45 percentage points in 2002.

Figure 2.5 presents females' adjusted employment rates that increase for all females regardless of tenure, and this includes those housed by SHAs. There is then a contrast with males in public housing, as our modelling estimates suggest that by 2002 SHAs were housing females who were more employable than their counterparts in 1982.

Both male and female private renters have adjusted employment rates that closely track the average rates in the working age population. There is then a slightly downward trend in the adjusted rate for males, but there is no evidence that male private renters have become less employable. Adjusted female rates began the timeframe with relatively high adjusted rates and, while they have increased, the rest of the female working age population has caught up. By 2002 female private renters have adjusted rates close to the rate for the working age population. It would be nice to extract the eligible CRA tenants and compare their actual and adjusted employment rates. Such comparisons would be flawed because CRA eligibility was restricted to a small fraction of the private rental population back in 1982, and thus sample numbers are too small in that year.

Figure 2.6 compares the actual and adjusted employment rates of public housing tenants by gender. The deterioration in male public renters' employment performance

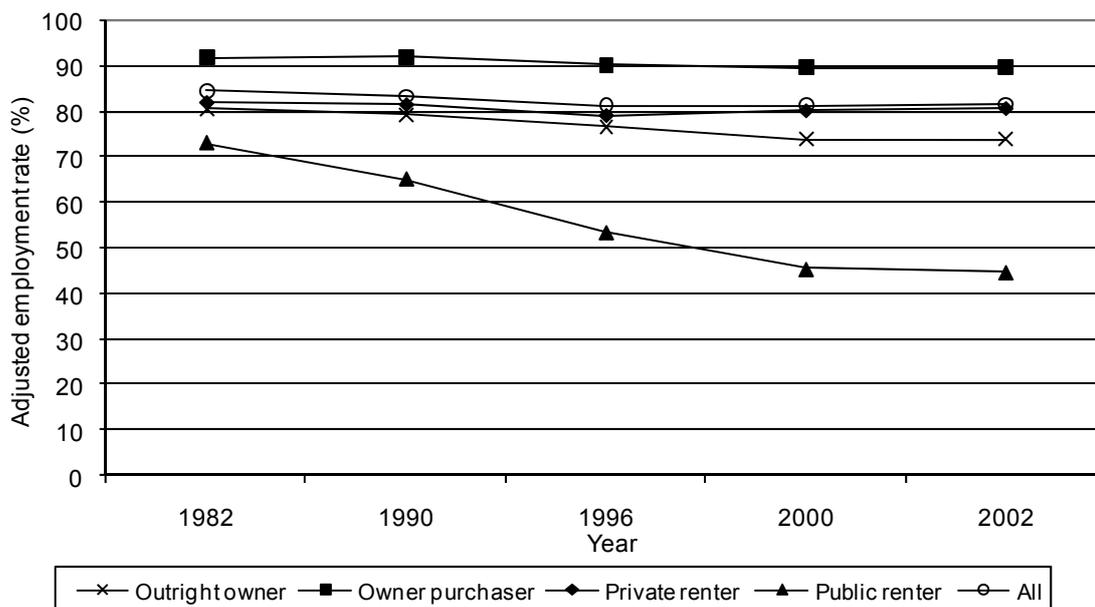
²⁹ The results in this Final Report differ from those in Wood et al. (2007) because we have used a slightly different method of arriving at adjusted employment rates. Conclusions are largely unaffected by this change in method.

over the timeframe 1982 to 2002 is largely anticipated by the adjusted employment rates. The trend in the adjusted employment rates closely tracks that of the males' actual rates, though adjusted rates remain higher than actual rates. We may conclude that male tenants are much less employable in 2002, but their employment outcomes have consistently been worse than expected given their socioeconomic, demographic and human capital characteristics.

A different picture emerges for women in public housing. According to the adjusted rates, females in public housing should have shared in the general increase in female employment participation rates over the period 1982 to 2002. After an initial increase in the 1980s, actual rates fell back to the very low levels of 25 per cent, well short of an adjusted rate of 43 per cent, and more or less unchanged from the participation rate back in 1982. While females in public housing were more employable in 2002 than in 1982, this had not translated into an increase in actual employment rates.

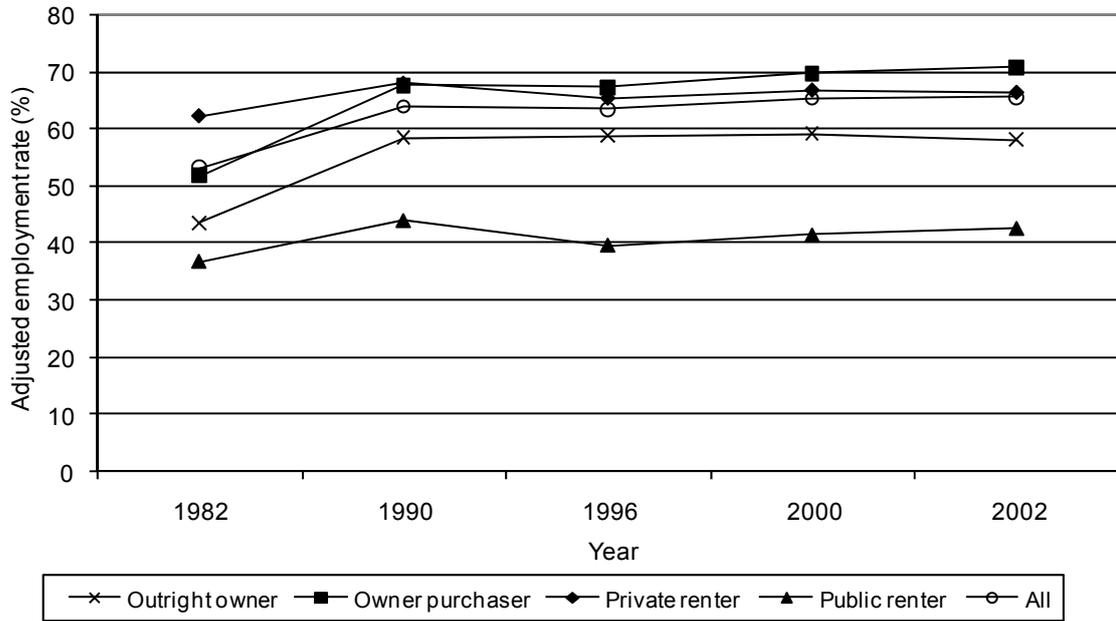
We cannot explain all of the change in public housing tenant employment participation rates by reference to observable socioeconomic and demographic characteristics. In the case of females we do not even anticipate the flat trend in actual employment rates, because observable characteristics justify an expected upward trend. One of the tasks in our program of research is to explain these findings. We begin this task in Chapter 4 by measuring work incentives, but before this we briefly describe the NRV's data sources and methods.

Figure 2.4: adjusted employment rate of working age males, by housing tenure, 1982-2002



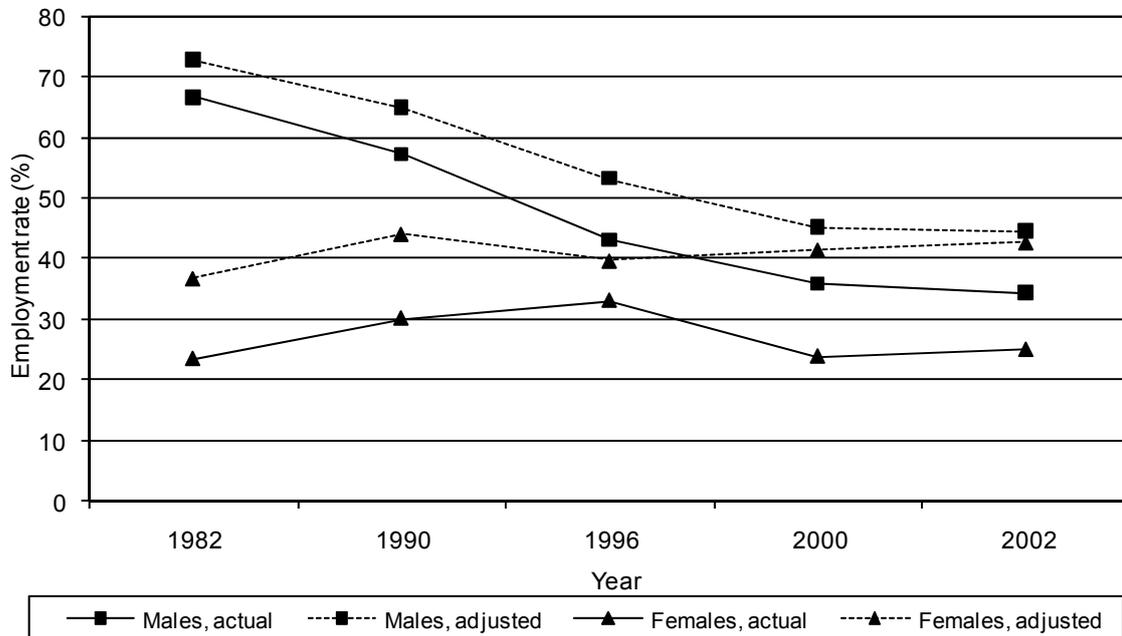
Source: Authors' own calculations from 1982, 1990, 1996-97, 2000 and 2002 SIHCs.

Figure 2.5: adjusted employment rate of working age females, by housing tenure, 1982-2002



Source: Authors' own calculations from 1982, 1990, 1996-97, 2000 and 2002 SIHCs.

Figure 2.6: actual and adjusted employment rate of working age public renters, by gender, 1982-2002



Source: Authors' own calculations from 1982, 1990, 1996-97, 2000 and 2002 SIHCs.

3 RESEARCH DESIGN AND METHODS

3.1 Introduction

A three-year rolling program of research offers researchers the opportunity to explore innovative methods from a diverse range of disciplines. It also allows employment of multiple data and information sources to test hypotheses. The accumulation of evidence from different data sources and research designs increases the confidence that can be placed in conclusions that are based on these findings, particularly if these findings deliver a common 'message'.

In this chapter we describe the different secondary data sources, the qualitative research data and the principal research approaches that have been deployed. Our aim is to acquaint the reader with the strengths and weaknesses of our data sources, and the principles and procedures that are followed in the design and application of our different research approaches. We do not have space to address technical issues in this final research paper. The NRV1 background research papers are a rich source of information on these issues; as research approaches are described, we cite the relevant research papers that readers may consult.

3.2 Secondary data sources

We begin by describing secondary data sources. These are of two kinds, panel/longitudinal data sets and repeated cross-section surveys. Panels are based on information collected from repeated interviews with the same sample of persons. We use two such data sets and both are prospective panel designs that collect data at two or more points in time on the same persons and variables (Menard, 2002, p. 2). In analysing causal relationships, panel designs have major advantages over cross-section designs because we can measure changes in variables over time for the same cases. If a cause must precede an effect in time, a researcher is better able to disentangle cause from effect using panel designs. When studying the impact of discrete events, say, divorce, or transitions from one state to another, say, from private rental housing into public housing, a panel design also allows comparison with control groups that are similar in all other respects. As explained later in this section, these data sets can exploit quasi-experimental methods that are widely used in the medical sciences and social psychology, but have been rarely used in Australian housing studies.

The other kind of secondary data set that we utilise is repeated cross-section surveys, where a separate sample frame is used at each point in time, but the same survey instrument is used to collect information on an unchanging set of variables. The cases are comparable because a probability sample is drawn from the same population (e.g. all adults), and hence comparisons can be made between sub-groups of the population over time.

3.2.1 *Household, Income and Labour Dynamics in Australia (HILDA) survey*

The HILDA survey is a comprehensive and nationally representative panel survey of Australian households and individuals. All adult members of an initial sample of households are surveyed and then re-interviewed on an annual basis. The HILDA survey is funded by FaCSIA. The survey design and administration is provided by the Melbourne Institute of Applied Economic and Social Research (MIAESR).

A primary characteristic of the survey is that the panel has an indefinite life, that is, new children of household members and new household members resulting from changes in the original household composition are added in each wave. Fieldwork for

the first wave of the survey started in August 2001 and concluded in the first quarter of 2002. The fieldwork for subsequent waves is conducted over the same period in each subsequent year. To date, five waves have been released, producing panel data over the timeframe 2001 to 2005.

As the name implies, the HILDA survey broadly covers the three interrelated areas of income, labour and household dynamics. Areas of coverage include labour force participation, work-to-retirement transitions, interactions between changes in family status and poverty, family formation and dissolution. The survey contains a myriad of variables describing housing circumstances, socio-demographic characteristics, household formation and dissolution, income, labour market circumstances, family, education, and labour market histories, mobility, health, time use and work-family balance. In Wave 1, retrospective information has been collected on labour market, household formation and other demographic transitions. Modules on special topics are included in each wave. For example, in Wave 2, personal wealth data are recorded.

The reference population for Wave 1 is all members of private dwellings in Australia, except diplomatic personnel of overseas governments, overseas residents staying in Australia for less than a year, members of non-Australian defence forces and their dependents, and individuals residing in remote and sparsely populated areas. Dwellings that are not primary places of residence are also excluded.

These sample framing rules broadly follow those applied by the Australian Bureau of Statistics' (ABS) to the Monthly Population Survey. However, unlike the ABS, individuals residing in boarding schools and university halls of residence (or colleges) and military personnel residing in private dwellings are included in the reference population for Wave 1. The sample population was selected from 488 census collection districts throughout Australia. Within each collection district, a sub-sample of between 22 and 34 dwellings was identified and individuals within these dwellings surveyed. Wave 1 contains the results of interviews with all eligible members of 6,872 households and interviews with at least one eligible member from a further 810 households. Person-specific survey results are available for 13,969 individuals. Of these, 13,158 (94 per cent) complete a self-completion questionnaire (MIAESR, 2002). We employ the first four waves of the HILDA Survey in the NRV1 program of research (see Table 3.1 for sample numbers in each wave).

Table 3.1: Sample numbers, HILDA survey, waves 1-4

<i>Wave</i>	<i>Households</i>	<i>Responding persons</i>
1	7,682	13,969
2	7,245	13,041
3	7,096	12,728
4	6,987	12,408

Source: MIAESR (2002, 2003, 2005, 2006)

Maintaining a representative sample over time is very important for a panel survey. The wave-on-wave attrition rate is the proportion of respondents in the previous wave that did not provide an interview in the current wave.³⁰ The attrition rate for Waves 2, 3 and 4 are 13.2 per cent, 9.6 per cent and 8.4 per cent (MIAESR, 2006).³¹ Ideally the attrition rate should be similar across all population sub-groups. In Wave 2, the

³⁰ The rate excludes those who are 'out of scope', that is, individuals who have died or moved overseas.

³¹ The British Household Panel Study achieved similar attrition rates in Waves 2 and 3, but the Wave 4 rate was two percentage points lower (MIAESR, 2006).

attrition rate was highest among individuals aged 15 to 34 years, single or in a de facto relationship, born in a non-English-speaking country, with low levels of educational qualifications, residing in Sydney, Melbourne, rural Western Australia or Tasmania, housed in an apartment, flat or unit, or unemployed in Wave 1. Attrition in the HILDA Survey is clearly non-random (MIAESR, 2002). Note, however, that longitudinal weights are available in the data set. The longitudinal weight for each person is his/her weight from the previous wave, adjusted for attrition and to person level benchmarks. The use of these weights when calculating descriptive statistics (e.g. means) addresses the problem of attrition bias.

3.2.2 Department of Housing and Works (DHW) public housing data

The Western Australian DHW public housing data set is derived from that SHA's administrative records and provides detailed socio-demographic and income information on Western Australia's public housing applicants while they are on wait lists, and subsequent to their offer and acceptance of a public housing tenancy. It is a panel data set that tracks individuals from the date of first appearance on wait lists, through entry into public housing, departure on relinquishing a tenancy or the most recent administrative record if still a tenant.

The data timeframe is from 1 January 1999 to 30 November 2005. All individuals who enter the wait list between these dates are included in the data set and tracked through time. There are four sample sub-groups:

- 37,956 wait list applicants who entered and exited public housing within the data timeframe;
- 40,316 wait list applicants who entered and were still in public housing at the end of the timeframe;
- 94,643 wait list applicants who dropped off the wait list within the timeframe and before entry into public housing;
- 37,175 wait list applicants who were still on the wait list at the end of the timeframe.

Wait list applicants (tenants) who dropped off the wait list (exited public housing) before the end of the timeframe are tracked until the date of exit from the wait list (public housing). For applicants (tenants) still on the wait list (in public housing) at the end of the data timeframe, the most recent record is the record as at 30 November 2005.

DHW public housing data is collected for the purposes of administering the public housing program in Western Australia, including the determination of continued eligibility and calculation of rebated (concessional) rents. It is a confidentialised unit record data set, in which each individual has a unique customer identification number and each household has a unique household number. Variables readily observable from the data include gender, position in the household, date of birth, disability types, Aboriginality, priority status and priority reasons, and location down to the postcode level. The variables are described in detail in Dockery et al. (2007b). Other socio-demographic data, such as education levels, are not available. Details on some other variables such as country of birth may be reported by applicants for public housing. However, as this information is not fundamental to the administration of the program, not all applicants respond to this question.

The DHW public housing data set, while state-based, possesses several distinct advantages over nationally representative panel data sets such as the HILDA Survey. First, panel studies are generally vulnerable to attrition bias because respondents

cannot be traced or refuse to be interviewed. Analysis based on the DHW data set is not vulnerable to these sources of attrition because public housing applicants and tenants are required to respond to questions from DHW pertaining to their socio-demographic and economic status in order to maintain their position on the wait list or their public housing tenancy. Second, one of the weaknesses of national data sets is that they usually contain only a small number of public housing tenants that restricts valid statistical examinations of hypotheses. Third, DHW has in place rigorous income verification procedures that ensure that the income data collected on applicants and tenants are accurate. Income details must be accompanied by documentary proof, such as wage slips from employers and benefit confirmation statements from Centrelink (DHW, 2006). Such procedures minimise the risk of both intentional and unintended reporting errors on the part of applicants and tenants.

Robust analysis of employment outcomes requires that employment status either be directly recorded, or the data contain sufficient income source information to allow accurate identification of employment status. While employment status is not recorded, the data contains information on over 100 income sources, enabling accurate identification of individuals receiving a wage or salary. Specifically, individuals receiving a wage or salary from a conventional job, Community Development Employment Project wage or Disability Wage Supplement are treated as employed.³²

DHW undertakes an income eligibility check of applicants at application and at property allocation, to ensure that public housing is only occupied by eligible persons. After acceptance of a tenancy, DHW reviews their tenants annually. Tenants whose income has changed are also required to report their new income details (DHW, 2006). Employment status in any one year is determined at 1 July. We assume that there is no change in employment status between reviews, so that employment status on 1 July is determined by reference to their status at the preceding review date.

3.2.3 Survey of Income and Housing Costs (SIHC)

The SIHC is a cross-section survey that contains a rich selection of variables that describe the income and housing circumstances of a sample of households that are representative of the Australian population. The survey elicits housing-related variables (housing tenure, dwelling structure and location, estimated house value, housing loans and repayments, housing costs etc.), labour market variables (wages, labour force position etc.), socio-demographic information (age, education, country of birth, family type etc.) and very detailed income data (specified by source of income and on a current weekly and previous financial year basis).

The SIHC has a repeated cross-section design. A repeated cross-section survey is different from a panel survey such as the HILDA Survey in that it does not track the same individuals through time. It is simply a cross-section survey that is repeated regularly. The SIHC is administered by the ABS and began in 1982. It was subsequently conducted every four years until 1994. More recently, the SIHC has been conducted every year from 1994-95 to 1997-98 and then again in 1999-2000, 2000-01 and 2002-03 (ABS, 2007c). In all the SIHCs, individuals aged 15 or over are interviewed and the sample is drawn from private dwellings. People resident in non-private residences such as hotels, boarding schools, boarding houses and institutions,

³² Disability Wage Supplement was introduced in 1994 to encourage disabled people to undertake paid work. The supplement is an additional payment made to the disabled individual who receives less than the award wage, provided they are unable to perform job duties at the appropriate level warranting payment of full award wages (Parliamentary Library, 1997).

those residing in remote areas of the Northern Territory, and members of the permanent defence forces are excluded.

We employ the SIHCs from 1982, 1996-97, 2000-01 and 2002-03 to conduct analyses that span two decades (see Table 3.2 for sample numbers in each year). For example, in Chapter 2 we used the SIHC as the data source for a comparison and analysis of long-run trends in rates of economic participation by housing tenure and HA. The deployment of successive cross-section SIHCs in this way has a respectable pedigree. In the ABS *Australian Social Trends* series, long-run changes in household type distributions are documented using data from the 1982 and 1995 SIHCs (Redmond, 1999). A Treasury paper by Rodrigues (2003) analyses the changes in numbers of first homebuyers and their employment status between 1981 and 2000 using the 1981 and 2000 SIHCs.

Table 3.2: Sample numbers, SIHC, 1982-2002

<i>Year</i>	<i>Households</i>	<i>Income units</i>	<i>Persons</i>
1982	14,927	20,117	31,723
1996	7,245	9,276	14,595
2000	6,786	8,400	13,183
2002	10,210	12,429	19,378

Source: 1982, 1996, 2000 and 2002 SIHCs.

3.2.4 *In-depth interviews conducted for qualitative research*³³

Complementing the quantitative analysis was qualitative research undertaken to examine attitudes, preferences and decisions of HA recipients in relation to various types of economic participation. In-depth interviews with 105 HA recipients from targeted groups in six different locations and drawn from two states allowed us to add depth to our understanding of the linkages between government HA and economic participation.

Site selection

While housing market conditions vary considerably across Australia and research suggests that there is substantial variation in access to jobs and educational opportunities between geographic areas (e.g. Dockery, 2000; Dixon, Shepherd and Thomson, 2001), we believe that the sites selected are representative of concentrations of target groups. Given resource restrictions, interviews were conducted in New South Wales and Victoria.

Data used to select the sites included receipt of CRA, high levels of rental accommodation (public and private) higher than average rates of unemployment, all indicators of areas with high socioeconomic disadvantage. These measures were derived from previous AHURI research and other research outputs recently completed by the research team. They were used to identify localities of social disadvantage associated with rental housing (public and private) in both case study states.³⁴

In New South Wales, areas were chosen from suburban Sydney with a concentration of public as well as private rental housing and Central Coast towns which have a long history of low value private rental. In Victoria, two metropolitan Melbourne locations were chosen in terms of a mix of public and low value private rental, with one being an inner suburban area. To capture the non-metropolitan lower rental market, Ballarat

³³ We are grateful to Rilke Muir for her excellent research assistance in this section.

³⁴ See Randolph and Holloway (2005, 2006).

was chosen as a suitable location. Both Ballarat and the Central Coast have a university but less access to technical and further education and other educational opportunities than a typical urban area.

Table 3.3: Site selection for qualitative interviews

<i>Location characteristics</i>	<i>New South Wales</i>	<i>Victoria</i>
Established urban location: → high rents → strong job market → good access to educational opportunities	Blacktown and Penrith	Preston, Northcote, Thornbury and Reservoir.
Outer suburban location: → lower rents → weak job market → relatively poor access to educational opportunities	Campbelltown	Dandenong, North Dandenong, Springvale and Noble Park.
Regional centre: → moderate rents → moderate job market → moderate access to educational opportunities	Central Coast: Gosford and Wyong	Ballarat

Sample selection

Overall, the 105 completed interviews met our requirements, covering location, sex, age, receipt of HA, disability and labour force participation. To mirror the percentages in receipt of HA in Australia, the target quota for interviewees was two-thirds female and one-third male. We met our quotas with 68 per cent women (71) and 32 per cent men (34). Interviewee selection was also designed to reflect age groups in receipt of different types of assistance. Consequently, public renters were generally older and private renters generally younger. Another target for selection was to include people in receipt of a DSP. This was achieved with 25 interviewees.

Completed interviews also had a balance between people NILF (not working and not looking for paid work) and people in the labour force but unemployed (not working and looking for paid work). Sixty-six people were in receipt of pensions or relatively long-term payments. Forty-one were in receipt of short-term benefits while looking for work or being educated. Finally, 61 per cent of respondents were in receipt of CRA and 39 per cent were living in public/community housing. In 2002 we estimate that two-thirds of working age HA recipients were entitled to CRA and one-third were living in public housing (see Table 2.1).

Design of the interview schedule

The schedule was designed to guide semi-structured interviews with a progression through key themes addressing the research questions. A series of subsidiary open-ended questions elicited more detailed information. The questions sought to elicit the attitudes, preferences and practical issues that affected interviewees' consideration of economic participation, as well as more specifically to provide information where significant gaps in the quantitative research evidence base had been identified. Qualitative research allows investigation of a broader range of issues of relevance to HA and economic participation, taking into account people's histories and the cultural context. For example, the interviews were able to probe differences in cultural

attitudes to paid and unpaid work, parenting and other life priorities related to family wellbeing.

Interviews were conducted in a conversational style, and followed the themes of: family and education history; housing history; practical issues and attitudes in regard to benefit receipt, HA, paid work and voluntary activities, mental and physical health, caring responsibilities and age; trade-off questions about paid work; and aspirations and plans for the future.

Interviewing in Victoria began at the end of June 2006 with all scheduled interviews completed by the end of October. New South Wales interviews commenced in October and were completed by December 2006. To work through the themes and questions took an average of 1½ hours for each interview. A sheet recording summary demographic information and an electronic recording of each interview were produced, along with a signed consent form from each interviewee. Recordings were transcribed for analysis.

3.3 Research designs

3.3.1 Regression modelling and quasi-experimental methods

The secondary data sets are analysed using a variety of regression modelling techniques that seek to uncover whether there is a relationship between HA and economic participation; and if so, the techniques quantify the strength of the relationship. Quantification has advantages for policy evaluation because it permits simulations of the 'what if' kind. At a number of points in the report we present findings of policy simulations where we take a reform, such as the working allowances introduced by the Western Australian DHW, and measure their impact on work incentives. There are also simulations where we take a change to policy and use the models to measure the impact on outcome variables such as employment participation.

The particular techniques chosen vary depending upon the measure of economic participation chosen by the researcher (earnings, hours of work, or discrete levels of economic participation), the type of data (panel versus cross-section) and whether policy settings allow exploitation of variation in HA that is independent of employment status. This latter feature is particularly attractive to researchers because the relationship between HA and economic participation is confounded by reverse causation. HA does blunt work incentives, and may impact on employment outcomes; but low incomes that result from inferior employment outcomes can also result in eligibility for HA. Unravelling cause and effect relationships is not straightforward and poses challenges to researchers using secondary data sets. These challenges are added to when there are unobservable or unmeasured variables that are correlated with both HA status and employment outcomes. For example, intellectual impairments are not commonly measured in surveys that are not specific to health. Those suffering mental health problems have relatively low rates of labour market activity because their impairments adversely impact employability; as a consequence, low incomes and a disproportionately high enrolment in HA programs can be anticipated. The unwary researcher can confound the effect of the unobservable, in this case, intellectual impairments, and falsely attribute their adverse employment outcomes to HA and work disincentives.

Fortunately there are techniques that researchers can employ in addressing these issues, and the NRV1 team employ a number of approaches. The use of panel designs is appealing because the timing of changes in HA and the parallel changes in labour market behaviour can be exploited to isolate changes in the former that

precede changes in the latter. Quasi-experimental methods are becoming more widespread in the social sciences, and the NRV1 research program is one of the first to apply these in Australian housing studies. These methods mimic the approach of medical and social psychology researchers who randomly assign clients between treatment groups that receive a drug or other form of assistance, and comparison (control) groups that receive a placebo. Random assignment ensures that if the treatment were not delivered the outcomes of both groups would on average be the same. Any differences that do emerge with treatment can be attributed to the effects of that treatment rather than differences in the characteristics of the two groups (e.g. diet). Use across groups of the same outcome measures is another important condition for identification.

These methods cannot be exactly replicated in the social sciences because random assignment in trials of social and economic programs is rare.³⁵ However, there are random treatments that can arise serendipitously. A classic example is natural events such as twin births, birth dates and the gender mix of children that have been used to measure the returns to schooling (Angrist and Krueger, 1991), the effects of fertility on labour supply (Angrist and Evans, 1998) and the effects of public housing residency on education outcomes (Currie and Yelowitz, 2000), these all being relationships that are bedevilled by unobservable variables. In Angrist and Krueger (1991), the state requirement that students enter school in the calendar year they turn six, and that they must stay at school until their 16th birthday, compels those who drop out to attend school for different lengths of time depending upon their birthdays. Because an individual's date of birth is unrelated to unobservable omitted variables influencing earnings potential, it is a valid 'instrument' for schooling. Differences in earnings by birth date can then be attributed to differences in schooling by quarter of birth.

Natural events are ideal because they do not cause differences in the outcome variable, say, earnings or hours of work, but they do contribute to differences in the explanatory variable, say, schooling or HA, that can impact on the outcome variable. We exploit variation in HA that is caused by the gender mix of two children families in Chapter 5. However, these kind of natural event studies ('natural' natural experiments) are uncommon. Researchers more frequently turn to institutional mechanisms and rules that cause variation in, say, schooling or HA that are plausibly unrelated to outcome variables such as earnings or unemployment. An example in the housing context is the rationing of public housing (Fischer, 2000). There are more people eligible for public housing than there are vacancies. Eligibility requires satisfaction of income tests and, once these tests are met, applicants enrol on wait turn lists. Once they reach the top of the lists they are offered assistance; administrators cannot select from the lists those who have tended to have inferior employment records. As a consequence, variation in HA between applicants making transitions into public housing and applicants still on wait turn lists may be treated as uncorrelated with omitted or unobservable variables that shape employment and earnings outcomes.³⁶ In Chapter 6 we report the findings of a study along these lines using confidentialised administrative records from DHW in Western Australia.

3.3.2 AHURI Housing Market Microsimulation Model (AHURI-3M)

AHURI's Housing Market Microsimulation Model (AHURI-3M) is a formal representation of the choices made by Australian households in the housing market. It

³⁵ This point is actually more relevant in Australia than, say, the US where 'trials' are more common. However, these study designs are beginning to gain acceptance in Australia; the studies reported in Cobb-Clark, Ryan and Breunig (2006) and Richardson (2002) involve random assignment to measure the impacts of labour market programs in Australia.

³⁶ The approach is not unproblematic. See Chapter 6 for further discussion.

captures the role of relative prices (or economic costs) and borrowing constraints in shaping the decisions about how much housing to purchase or rent, and in what tenure to consume that housing (Wood, Watson and Flatau, 2003). In the present context, a very relevant component is a tax benefit simulator that computes a person's income tax liabilities and their ISP entitlements (including CRA) on the basis of survey respondents' reported private income (from earnings, interest, dividends and so on). The simulator models all major tax provisions and income support programs (Wood et al., 2007, Appendix B).

Since the original design of AHURI-3M there have been two major extensions of the tax benefit simulator that have been resourced by NRV1. The first is an ambitious development of the simulator so that it is capable of historical comparisons over the 1982-2002 timeframe.³⁷ This has involved detailed research of the tax and benefit programs and parameters back in 1982 and their evolution up to 2002. The opportunity for such historical comparisons is provided by the SIHC, the repeated cross-section survey that has been periodically conducted over this timeframe (see Section 3.2.2). As a consequence of this program of research, we can compute commonly invoked work incentive measures (e.g. EMTRs) and analyse how these have changed over the 20-year period (see Chapter 4).

The second extension allows validation of the SIHC modelling using an alternative probability sample drawn from the same population (HILDA). We have used the private income information in this survey to compute each respondent's tax liabilities and ISP entitlements (including CRA) in exactly the same way as for SIHC.³⁸ This achieves two goals. First, it allows validation of work incentive measures (or other measures) across two data sources. Second, the simulator has been designed so that it can be applied to the first four waves of HILDA. We can therefore conduct panel analyses of changes in work incentive measures as the same people move on and off income support programs, and enter or exit employment.

3.3.3 *Qualitative research*

The quantitative research approach uses secondary data sets that have been collected for different purposes and are not therefore tailored to the requirements of researchers. Take the DHW panel data set, for instance, which has been collected as an essential aid to the management of public housing in Western Australia. Researchers interested in the relationship between HA and economic participation would wish to find information on the educational qualifications, skills and experience of working age tenants, but this information has not been elicited from tenants as it is non-essential to the administration of public housing. Equally importantly, the perceptions and attitudes of people are not represented in these data sets, and so analyses about what motivates individuals, the constraints that they confront and the practicalities involved when making decisions about living arrangements can be limited.

The detailed interviews conducted for the qualitative program of research yield an enormously rich data set. The researchers were able to investigate the attitudes and perceptions of HA recipients unconstrained by the limitations faced by users of secondary data sets. Whilst each person interviewed has their own story and unique set of circumstances, analysis of such a large number of interviews enables patterns to be discerned and a framework developed for communicating the findings, which are then illustrated through use of narrative (Flick, 2002). In Chapter 8 we offer a

³⁷ This ambitious project has been achieved thanks to the effort and diligence of Rachel Ong.

³⁸ We are grateful to Alice Stoakes for her excellent research assistance. This work has been completed as part of the loss of partner AHURI project 30315.

summary report on patterns in the data. A comprehensive report that discusses these patterns in more depth and illustrates them through one or more quotes by interviewees can be found in NRV1 Research Paper 7 (Hulse and Saugeres, 2007). The interviews were analysed with the assistance of the qualitative software N'Vivo. Computer-assisted qualitative data analysis facilitates the coding and retrieval of the data and the identification of patterns and relationship between codes. Using N'Vivo was extremely time consuming for this amount of data, but there is no substitute for immersion of the researcher in the data to enable analysis in a theoretically grounded way.

4 THE CONTRIBUTION OF HOUSING ASSISTANCE PROGRAMS TO POVERTY AND UNEMPLOYMENT TRAPS

In the 20 years from 1982 to 2002, the proportion of Australian working age public housing tenants in employment fell markedly relative to Australians living in other housing tenures. The results of the regression modelling presented in Chapter 2 indicate that for male public renters, the declining employment participation rate can largely be accounted for by their worsening socioeconomic, demographic and human capital characteristics. This is not the case for female public renters. While females in public housing were more employable in 2002 than in 1982, this has not translated into an increase in actual employment rates. In this chapter we explore whether poverty and unemployment traps created by the interactions between the tax benefit system and HA programs is one likely explanation because they erode the financial returns to work effort, particularly for females in public housing. We also examine whether public housing tenants are increasingly caught in poverty and unemployment traps caused by changes in the structure of HA, tax and benefit systems. We model the 1982 and 2002 tax benefit and HA systems using the AHURI-3M microsimulation model that permits interactions between taxes, income support program and HA parameters to be accounted for in our measures of work incentives. The sample comprises working age individuals, defined as non-dependent persons aged 15 to 64. Details of the tax provisions and ISP parameters can be found in the appendices of Dockery et al. (2006) and Wood et al. (2007). To our knowledge, no other Australian analysts have attempted the ambitious task of modelling the 1982 tax benefit system and conducting comparisons over such a long time period. The approach allows us to profile changes in work incentives over a 20-year period and isolate changes that are due to policy reforms, including those made to HA programs. We are also able to set up alternative policy scenarios to examine the impacts of proposed policy reforms on work incentives.

CRA is a HA program that has grown from one that was of marginal significance in 1982 (see Table 2.1, Chapter 2), to one of considerable importance given that it now provides HA to 21 per cent of all working age private rental tenants.³⁹ The numbers receiving CRA back in 1982 are too small to conduct comparisons over the 20-year timeframe. We do, however, present measures of CRA recipients' work incentives in 2002.

Key changes took place in the CRA and public housing institutional arrangements between 1982 and 2002 that could have affected the work incentives of HA recipients. While typical rents are now generally set at 25 per cent of assessable income, they were set at only 20 per cent of assessable income back in 1982. This change will have acted to blunt work incentives, given that rents now increase more steeply in relation to tenants' earnings. A major change in the CRA structure was the removal in 1987⁴⁰ of a separate CRA income test that prevented multiple stacking of CRA and

³⁹ The estimate reported here is a conservative figure for two reasons. First, the present sample excludes elderly private renters. Second, estimates derived from survey data such as the SIHC tend to be underestimates compared to administrative data. In the 2002-03 SIHC we find that among all private rental tenants, 819,518 are eligible for CRA, as compared to 935,488 tenants in the Australian Institute of Health and Welfare's (2003) administrative data.

⁴⁰ The separate income test was removed on 9 July 1987. In the UK there are serious multiple stacking problems; for example, Housing Benefit (the equivalent of CRA) and Family Credit recipients face a combined withdrawal rate of 90 per cent. Tax and social security contributions will add to this rate (Bingley and Walker, 2001).

other ISPs.⁴¹ There are of course other changes in the Australian tax and benefit system that will have impacted on work incentives; a major change was the introduction of a goods and services tax and accompanying changes to the fiscal system. This major reform package was introduced in 2000 and its effects will be captured in our 2002 work incentive measures.

In Section 4.1, we document the methods that have been employed to compute our measures of poverty and unemployment traps. Section 4.2 presents measures of poverty and unemployment traps faced by HA recipients and contrasts them with those faced by individuals not in receipt of HA. We find that, on average, HA recipients' work incentives, and especially those of public housing tenants, are worse than the rest of the working age population, and the position of HA recipients has deteriorated over the last two decades relative to other ISP recipients. This is especially evident among females in jobless couple households, and female sole parents. The section concludes with a separate examination of the position of CRA recipients in 2002. Section 4.3 presents the results of policy reform simulations. We measure whether work incentives could be improved if public housing tenants were charged market rents and eligible tenants become entitled to CRA. We also estimate the impact on tenants' work incentives of a working allowance as introduced by DHW in Western Australia. Finally, we measure work incentives in the absence of CRA, a research exercise that is designed to estimate whether CRA increases the incidence of poverty and unemployment traps among eligible private renters. These measures have been chosen as typical of the type of changes that governments could make to HA programs, or of the sort of questions policy makers might wish to answer in connection with HA and work incentives. The research exercises show that on their own HA and reforms to HA will have limited impacts on work incentives. This is because the severe poverty and unemployment traps that many HA recipients find themselves caught up in are largely the product of interaction between Commonwealth government taxation and ISPs, and the low wage jobs available to them. A concerted approach across tiers of government is required if work incentives are to be seriously tackled. These are the main points covered in Section 4.4.

4.1 Poverty and unemployment trap measures

Individuals are caught in poverty and unemployment traps when the simultaneous increase in tax liabilities, withdrawal of government benefits and HA erode the financial rewards to work effort and trap low-income persons in cycles of poverty and welfare dependence. In this section we model the 1982 and 2002 tax benefit and HA systems using the AHURI-3M microsimulation model that permits interactions between taxes, income support programs and HA parameters to be accounted for in our measures of work incentives. The model is operationalised using a large microdata base from the SIHC, which collects a comprehensive range of income and housing cost data.⁴² Our estimates are based on a sample of working age persons, defined as non-dependent persons aged 15 to 64. A distinction is drawn between poverty and unemployment traps. Individuals caught in poverty traps are employed but obtain little or no financial gain from marginal increases in work effort (e.g. overtime), while those caught in unemployment traps obtain little or no financial gain when making transitions into employment.

To quantify the extent of poverty traps, we measure EMTRs, which is the proportion of an additional dollar of private income that a person forfeits due to withdrawals of

⁴¹ There were major changes to the CRA eligibility criteria between 1982 and 2002 (see Appendix A1). We would like to thank Kath Hulse for alerting us to these changes and the timing of these changes.

⁴² A validation exercise has also been conducted using the record files of HILDA (see Wood et al., 2007).

government benefits and HA, while simultaneously having to meet increased tax liabilities. EMTRs measure the incentive to work a little harder and are relevant to those already in the workforce (the waged/participants). The EMTR of each waged person is calculated taking into account the level of his/her partner's income, and the impacts on a partner's entitlements to ISPs.⁴³ For any couple income unit, two EMTRs are calculated, one for the reference person and one for the partner of the reference person.⁴⁴ Finally, the amount of public HA received is treated like any other government cash benefit that gets withdrawn as income increases.⁴⁵ Participants with EMTRs in excess of 60 per cent are caught in poverty traps because a marginal increase in work effort offers little additional reward. The benchmark of 60 per cent is a commonly used for Australian studies (Polette, 1995; Beer, 2003) and was the highest marginal income tax rate in 1982 (Australian Taxation Office, 1983).

Unemployment traps are measured by replacement rates that quantify the financial rewards when a non-participant (unemployed or NILF) makes the transition into paid employment. It is therefore particularly applicable to unwaged persons faced with the decision of whether to seek work. A replacement rate is the ratio of net income when unwaged to net income when waged. The net income measure includes private income⁴⁶ (net of tax liabilities) and ISPs (government benefits and HA). As with the EMTR calculations, public housing subsidies are treated like any other government cash benefit. Wage estimates are the predictions obtained from wage equations that have been estimated using the SIHC samples of male and female employees.⁴⁷

For couples, we can calculate the replacement rate using individual or income unit income. This choice will affect the measure of work incentives. Unwaged individuals with participant partners tend to have relatively high replacement rates when calculated using income unit income, because the partner's income cushions the income unit's financial position. We have chosen to present the measures based on an individual's net income. This assumes that partners' do not 'share' income even though they 'share' the same roof. The assumption is less likely to be questioned now than 20 years ago as more female partners work today, and financial independence in a world of high separation and divorce rates is increasingly important and more accepted by partners where there is no single 'breadwinner'.⁴⁸ Estimates will be higher if the assumption is relaxed, and can therefore be regarded as conservative.

Individuals with replacement rates in excess of 75 per cent are caught in unemployment traps because transition into work offers little or no financial reward,

⁴³ Though tax liabilities are generally based on the individual's own income only, ISP means tests are governed by the income of the household (or to be precise the income unit). For example, the amount of Newstart Allowance received by a partnered individual decreases by 70 cents for every dollar that his/her partner's income exceeds the partner's cut-out point. Moreover, the Medicare levy can be reduced by a family reduction amount if a person is partnered or has dependent children.

⁴⁴ The income unit reference person is the male in couple income units, the parent in sole parent income units and the person in single income units (ABS, 2006). To illustrate the necessity of this, consider the simple example of a couple where the husband earns a taxable income of \$80,000 while his partner has zero taxable income. Under the 2002 tax benefit system, the husband's EMTR will be at least 47 per cent, the marginal income tax rate of his tax bracket. His wife's EMTR is zero. Hence, it would be erroneous to assign the same EMTR to both partners in couple relationships. When the reference person's (partner's) EMTR is computed, the income of the partner (reference person) is held constant.

⁴⁵ The assistance is computed as the difference between market rent and the concessional rent paid. There is a reservation here: ISPs can be freely spent by the recipient, but HA is 'tagged' to housing. A dollar of HA may not have the same value to a recipient as a dollar of ISPs.

⁴⁶ This includes non-wage private income, such as income from interest and dividends.

⁴⁷ The wage equations control for selection bias using the Heckman correction. The wage equation estimates are available from the authors upon request.

⁴⁸ Replacement rate estimates from the income unit measure can be found in Wood et al. (2005a).

given that work-related expenses such as childcare and commuting costs are not taken into account. These are particularly significant for couples and singles with children. For example, childcare fees (in 2002) represent approximately 23 per cent of disposable income for an income unit with one child in full-time long day care and gross annual income of \$50,000. The childcare fees net of childcare benefits are approximately 11 per cent of disposable income (Rammohan and Whelan, 2005). Estimates from the Household Expenditure Survey (ABS, 2005) show that average weekly transport costs for single persons (couples with dependent children) are 12 per cent (17 per cent) of the average 2002-03 disposable income of employed single persons (couples with dependent children). These estimates suggest that many individuals with replacement rates of over 75 per cent will be financially worse off when working.

4.2 Trends in work incentive measures: Housing Assistance recipients 1982-2002

In this section we investigate whether poverty and unemployment traps have worsened for HA recipients who belong to three categories. CRA recipients are either CRA1 with no dependent children or CRA2 recipients with dependent children. In 1982, the minimum rent threshold and maximum CRA rate was the same regardless of the presence of children. However, the distinction between CRA1 and CRA2 becomes relevant because, from 1989 onwards the eligibility criteria, thresholds and rates governing CRA payments differ depending on whether the recipient has children (Hulse, 2002). The third HA group comprises public housing tenants. The position of HA recipients is contrasted with other ISP recipients ineligible for HA. These individuals form a typically low-income group who have socioeconomic and demographic characteristics that are similar to HA recipients and therefore constitute a suitable comparison group.⁴⁹ Estimates for all waged (employed) Australians are also presented.

4.2.1 Poverty traps

Regardless of gender, employed HA and other ISP recipients are more likely to find themselves caught in poverty traps than other workers. This is clearly demonstrated in Figure 4.1 which shows the percentage of employed persons caught in poverty traps, by HA status and gender. The most striking feature is that almost 80 per cent of employed CRA1 male and female recipients were caught in poverty traps in 2002. This is unsurprising, given that over three-quarters of both male and female CRA1 recipients were either Newstart Allowance or Youth Allowance recipients. In 2002 the taper rates of these allowances started at 50 per cent and increased to 70 per cent beyond an upper income taper range of over \$142 per fortnight. CRA is withdrawn once entitlement to the ISP 'passport' is zero, and at the same rate as the ISP's taper rate. But CRA can nevertheless contribute to the problem by extending the income range over which a worker is caught in poverty traps.

Employed public renters are generally less likely to be caught in poverty traps than CRA recipients and other ISP recipients. This is because they were largely made up of full-time employed persons, and these are generally less likely to be caught in

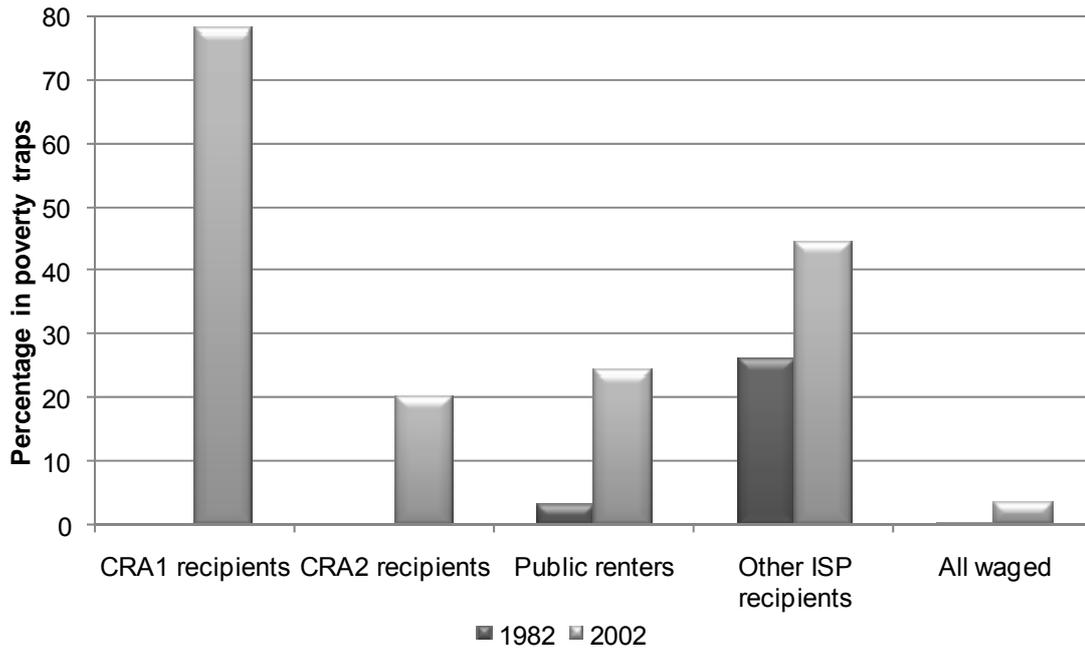
⁴⁹ As family benefits are paid to both low-income and medium-income families, individuals receiving family benefits only but no other means-tested pension or allowance are excluded from this comparison group. Approximately half of this group are made up of outright homeowners, one-quarter are owner purchasers, 14 per cent are rent-free persons and the remaining 13 per cent are private renters who do not meet the CRA eligibility criteria, that is, who either pay rent below the minimum rent threshold or who receive ISPs such as Austudy that do not allow access to CRA.

poverty traps because multiple stacking of ISP and HA is not as common as it is for part-time employed persons.⁵⁰

Though employed public renters have better work incentives than other comparable groups, the position of public renters in 2002 was not as good as it was back in 1982. The proportion caught in poverty traps increased markedly between 1982 and 2002 and will reflect changes in SHA rent setting rules such that housing subsidy is now withdrawn more rapidly as assessable income increases (see Section 4.3.1).

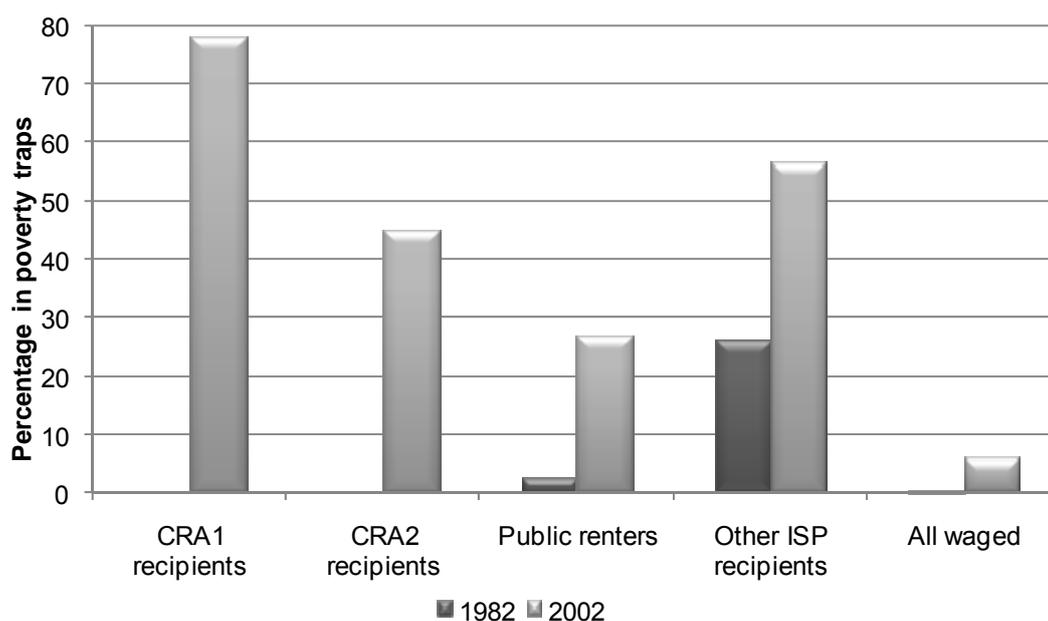
Figure 4.1: Percentage of waged working age persons caught in poverty traps, by HA status and gender, 1982-2002^a

(a) Males



⁵⁰ In 2002 three-quarters of employed public renters did not receive means-tested government benefits and approximately half paid market rent. Those who paid market rent did not receive public housing subsidies and were therefore not affected by the multiple stacking of public housing subsidy, other ISPs and tax liabilities. Two-thirds of waged public renters were employed full-time, as compared to only one-quarter of waged CRA recipients and 13 per cent of other waged ISP recipients.

(b) Females



Source: Authors' own calculations from 1982, 1997, 2000 and 2002 SIHCs.

Note:

a. There are 8,073 (5,166) males (females) in the 1982 SIHC and 5,011 (4,392) males (females) in the 2002 SIHC. In the 1982 SIHC, there are two CRA1 recipients, seven CRA2 recipients, 382 public renters and 105 other ISP recipients. In the 2002 SIHC, there are 82 CRA1 recipients, 173 CRA2 recipients, 144 public renters and 201 other ISP recipients. Further details on sample numbers can be obtained from the authors upon request. There are only nine waged CRA recipients in the 1982 SIHC. Public renters comprise 98 per cent of the waged HA sample in 1982 and therefore 1982 CRA recipients are excluded from the figure.

4.2.2 Unemployment traps⁵¹

We now turn our focus to non-participant (unwaged) persons who form 73 per cent of HA recipients (and are the target of the government's 'welfare to work' agenda). We compare the same sub-groups of ISP and HA recipients, but also identify key household types that are particularly prone to unemployment traps.

Figure 4.2 shows the percentage of unwaged males and females with replacement rates in excess of 75 per cent, and indicates a general increase in the proportion of unwaged persons caught in unemployment traps over the 20-year period. The problem was more severe for females than males in 1982 and its severity increased more for females than males, with over 20 per cent of unwaged females caught in unemployment traps by 2002.⁵² Median replacement rates exhibit steep increases among females; back in 1982 it was 27 per cent but by 2002 the median rate had reached 62 per cent. Female replacement rates increased more rapidly than male

⁵¹ The 2002 SIHC estimates in this section have been validated using Wave 3 of the HILDA Survey (see Wood et al. (2007, Appendix F)). The 2002 SIHC and HILDA results show similar trends. The estimates from HILDA are drawn from financial year income estimates, while the estimates from the 2002 SIHC are drawn from income estimates derived from annualised weekly income figures.

⁵² The 1982 female replacement rate distribution is bi-modal with a cluster around 75 per cent and another at low replacement rates, while the 1982 replacement rates of males are more dispersed. Because of the cluster of females at replacement rates of around 75 per cent, a larger proportion of females had replacement rates above 75 per cent than males in 1982. However, because of the second cluster of females at low replacement rates, the median replacement rate of females was nearly half that of males in 1982.

rates because most unwaged males have partners who are unemployed or NILF, and thus the change in the unemployment benefit upper taper rate (from 100 per cent in 1982 to 70 per cent by 2002) disproportionately affected men.⁵³ Women would have been particularly affected by the introduction of means-tested family payments that replaced the universal family allowance in 1987 (Beer, 1995). Finally, public housing has become feminised over this timeframe and, as we discuss below, unemployment traps are more severe among tenants in this tenure, with female sole parent tenants particularly vulnerable.

Our principal focus here is on HA recipients, and the evidence clearly shows that by 2002 public renters are more likely to be caught in unemployment traps than CRA recipients and other ISP recipients. Once again, gender differences are apparent, with the position of female public renters deteriorating relative to that of male public renters. On the other hand, the removal of multiple stacking has caused a decline in the incidence of unemployment traps among female CRA recipients,⁵⁴ though the 1982 estimates for male CRA1 and CRA2 recipients should be interpreted with caution, given the small numbers in each group.⁵⁵

In Figure 4.3 we again present the 2002 incidence of unemployment traps among non-participant recipients of HA and ISP, but compare this with the corresponding 2002 employment participation rates as expressed with respect to working age adults. The comparison is conducted by HA status. There is little evidence here of a systematic relationship between the incidence of unemployment traps and the corresponding rate of employment participation among all working age adults.

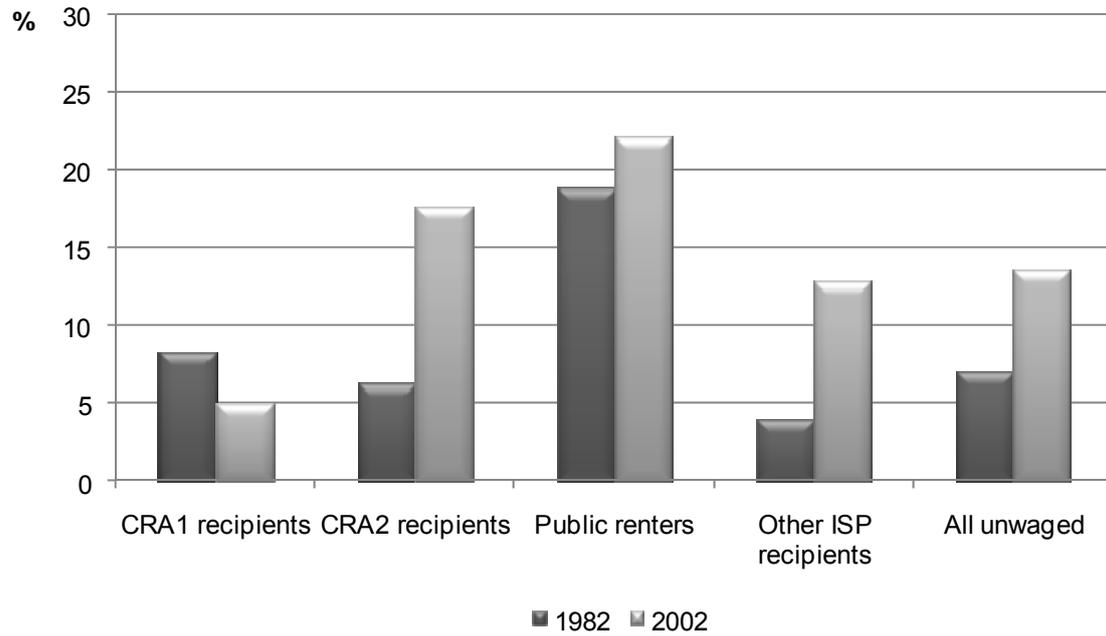
⁵³ In 1982, the unemployment benefit taper rate was 50 per cent over a lower taper income range of \$20 to \$120 per fortnight. Income over \$120 attracted a higher taper rate of 100 per cent, that is, for each additional dollar earned over \$120, a dollar of unemployment benefit was withdrawn. 70 per cent of unwaged partnered males have unwaged female partners, while only 42 per cent of unwaged partnered females have unwaged male partners.

⁵⁴ Low-income females are more likely to be employed in part-time jobs where wage income is such that an ISP program entitlement is still received. As such, CRA payments will not be withdrawn on transition into part-time jobs.

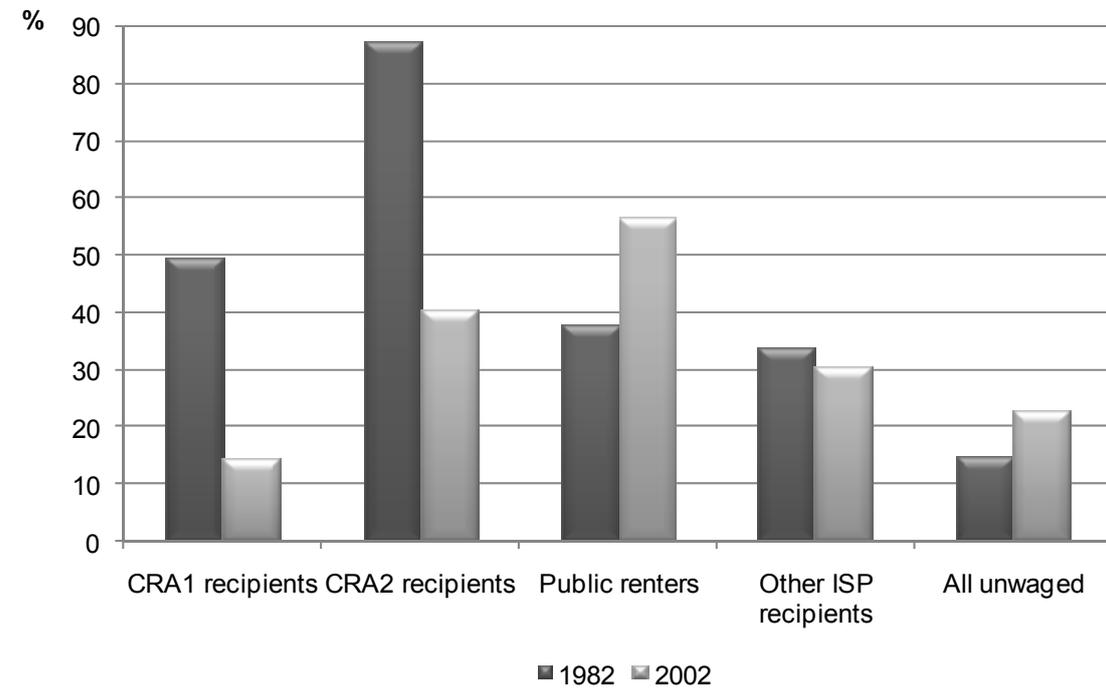
⁵⁵ There are only 36 (16) CRA1 (CRA2) waged male recipients in the 1982 SIHC.

Figure 4.2: Percentage of unwaged working age persons caught in unemployment traps, by HA status and gender, 1982-2002

(a) Males



(b) Females



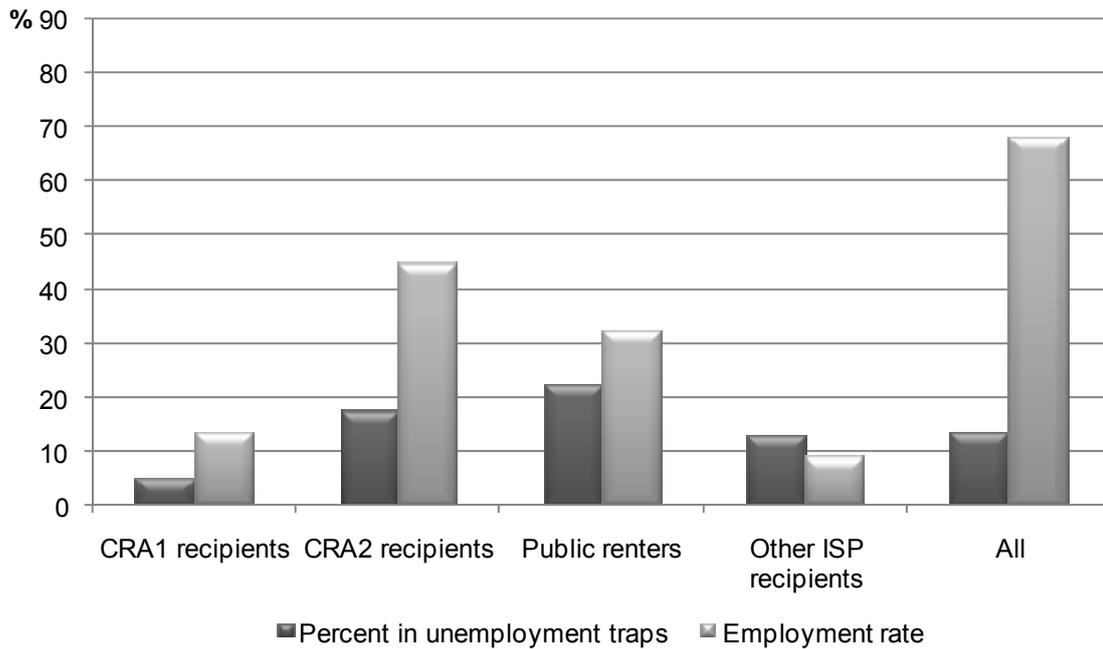
Source: Authors' own calculations from 1982 and 2002 SIHCs.

Note:

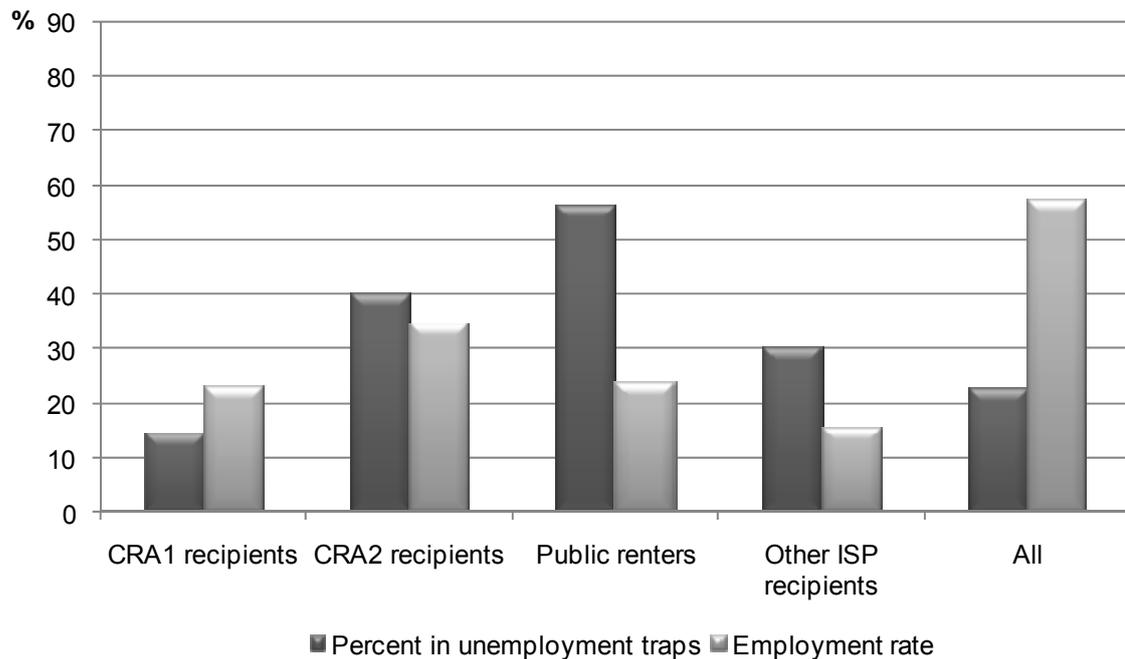
a. There are 2,842 (6,077) unwaged males (females) in the 1982 SIHC and 1,230 (2,319) males (females) in the 2002 SIHC. In the 1982 SIHC, there are 131 CRA1 recipients, 164 CRA2 recipients, 629 public renters and 1,876 other ISP recipients. In the 2002 SIHC, there are 363 CRA1 recipients, 260 CRA2 recipients, 384 public renters and 1,199 other ISP recipients. Unwaged persons who own businesses or rental properties are excluded. Further details on sample numbers can be obtained from the authors upon request.

Figure 4.3: Percentage of unwaged working age persons caught in unemployment traps and employment rates, by HA status and gender, 2002

(a) Males



(b) Females



Source: Authors' own calculations from 1982 and 2002 SIHCs.

Note:

a. The proportion caught in unemployment traps is computed for unwaged working age persons. There are 1,230 (2,319) males (females) in the 2002 SIHC. Unwaged persons who own businesses or rental properties are excluded. The employment rates are calculated for all working age persons. There are 7,389 (7,650) working age persons in the 2002 SIHC. Further details on sample numbers can be obtained from the authors upon request.

There are groups such as male and female CRA1 recipients that have relatively low employment rates, yet the incidence of unemployment traps in this assistance category is also low.⁵⁶ Employment rates among CRA2 recipients and public housing tenants (male and female) compare favourably with other ISP recipients, despite the relatively high incidence of unemployment traps.

The estimates presented in Figures 4.2 and 4.3 mask differences across household types. Recent Australian studies have identified jobless couples and sole parents as of particular concern from a labour market perspective (Miller and Volker, 1987; Miller, 1997; Gregory, 1999; Wood et al., 2007). It turns out that, for couples, the employment status of your partner is a critical influence on your chances of being caught in an unemployment trap. Our measures reveal that in 2002 25 per cent (23 per cent) of unwaged males (females) with unwaged partners were caught in unemployment traps. On the other hand, if you have an employed partner, a non-participant male (female) has only an 8 per cent (5 per cent) chance of being 'trapped'. The partners in jobless couples are much more vulnerable to unemployment traps, as they are particularly prone to multiple stacking involving the simultaneous loss of government benefits, housing subsidies and additional tax liabilities.⁵⁷

Among couples, a growing tendency to partner with those who share common traits (assortative partnering) could then be a source of employment polarisation (Dawkins, Gregg and Scutella, 2005). Assortative partnering among couples is explored, using estimates of partners' potential earnings.⁵⁸ The absolute difference between partners' permanent earnings and measures of their statistical association can be used as measures of assortative partnering, since they show whether there is a tendency to partner with those sharing common levels of education, experience, health and birthplace, variables we use to estimate potential earnings. With improved levels of female schooling and qualifications, it has become more typical for Australian males to partner with females having a similar earnings potential. The average (absolute) difference (in 1982 dollars) in partners' real potential earnings declined by \$1,525 between 1982 and 2002. The increasingly homogenous earnings capacity of partners is nowhere more apparent than among couples in public housing, where the difference has narrowed by \$2,906. Spearman's correlation coefficient measures association between the rank-orders as determined by (in this case) potential earnings, and confirms stronger positive assortative partnering among Australian couples. By 2002, Australian males (females) with relatively low earnings potential had become more likely to partner with females (males) who have relatively low earnings potential. Given these demographics, job polarisation can be expected, and is exacerbated by the unemployment traps that bedevil jobless couples. But among public housing tenants, trends in positive assortative partnering are more muted. The males that females in public housing marry typically had lower earnings capacity in 2002 as compared to their counterparts in 1982, with mean real potential earnings falling from \$15,656 in 1982 to \$13,780 in 2002 (at 1982 prices). But the relationship

⁵⁶ CRA1 recipients are typically young and single, with 80 per cent of CRA1 recipients single in 2002, as compared to under 40 per cent of other HA and ISP groups; 18 per cent were under 25, as compared to 5 per cent and 8 per cent of public renters and other ISP recipients respectively. A higher proportion of this group are therefore enrolled in full-time education and training programs, with 14 per cent studying full-time in 2002, as compared to 7 per cent (under 4 per cent) of CRA2 recipients (public renters and other ISP recipients).

⁵⁷ The 2002 percentage of jobless couples with males (females) subject to multiple stacking is 75 per cent (63 per cent). A smaller 52 per cent (57 per cent) of non-participant males (females) are prone to multiple stacking, given an employed partner.

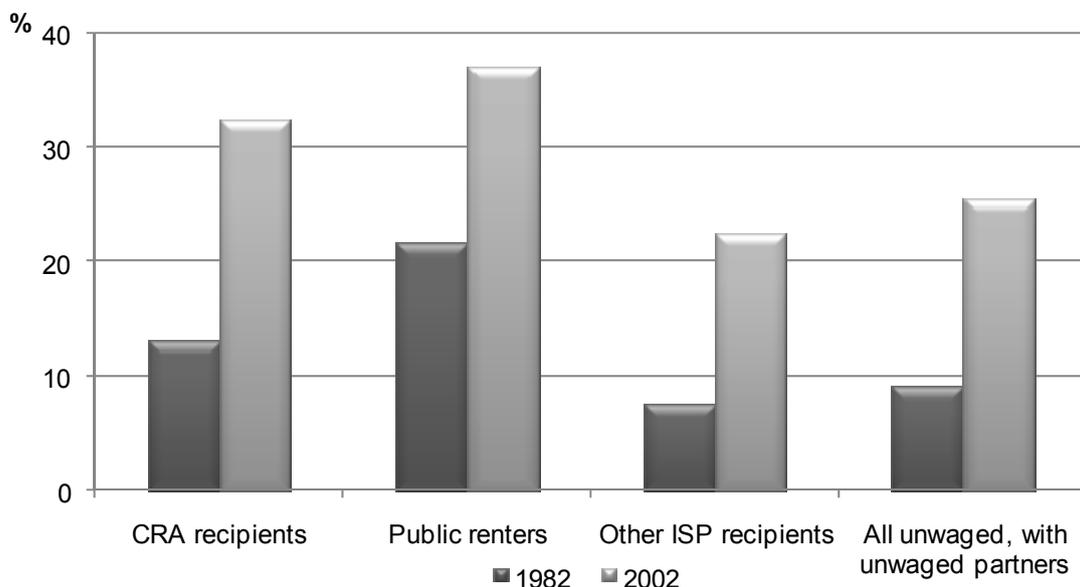
⁵⁸ Potential earnings are set equal to the predictions from wage equations that have been estimated using the familiar two stage estimation procedure to correct for selection bias. These estimates are more commonly referred to as permanent earnings in the economics literature.

between females' relative position in the potential earnings distribution and the relative position of the males they are married to remains unchanged. Nevertheless, there is a high degree of positive assortative partnering among public housing tenants, and this will contribute to the incidence of unemployment traps.⁵⁹

But do HA programs contribute to the unemployment traps of jobless couples? Figure 4.4 cross-tabulates the 1982 and 2002 incidence of unemployment traps among jobless couples by HA status.⁶⁰ There has been a steep increase in the incidence of unemployment traps across all the HA and ISP categories of jobless couples. Females fare relatively poorly, and female public renters in particular, with over 50 per cent caught in unemployment traps by 2002. Public renters, especially females, face the most severe multiple stacking problems. In 2002, 96 per cent of non-participant female public renters with unwaged partners were subject to multiple stacking. Even among males this percentage is very high at 94 per cent.⁶¹ The decline in real wages paid for jobs typically occupied by public housing tenants is also a relevant consideration here. Even though there has been real wage growth in both full-time (20 per cent) and part-time (16 per cent) jobs among all working age employed persons, the real wages of jobs held by public renters have declined, with full-time (part-time) jobs paying real wages 10 per cent (9 per cent) lower than in 1982. The inferior outcome for public renters is apparent for females and males. For example, females in public housing who are employed full-time have experienced an increase in real wages of 5 per cent between 1982 and 2002, but the average growth in real wages among all full-time females has been 30 per cent. Similarly, while females in public housing who are employed part-time have experienced an 11 per cent decline in real wages over the timeframe, the real wage among all part-time females increased by 21 per cent.

Figure 4.4: Percentage of unwaged working age persons with unwaged partners caught in unemployment traps, by HA status and gender, 1982-2002^a

(a) Males

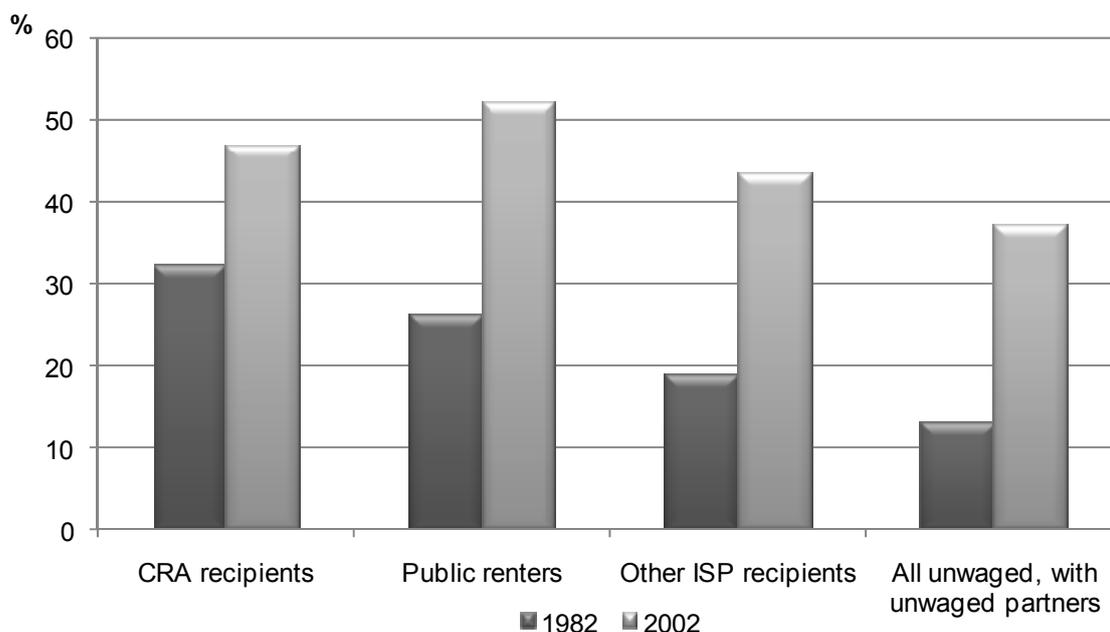


⁵⁹ This issue is taken up again in the final chapter where we discuss future directions for research.

⁶⁰ Estimates for CRA recipients are combined, given the extremely small 1982 sample size. There are only 33 (21) unwaged CRA1 (CRA2) recipients with unwaged partners in the 1982 SIHC.

⁶¹ The incidence of multiple stacking has grown in importance since 1982. Among male public renters, the incidence of multiple stacking increased from 91 per cent in 1982 to 94 per cent in 2002. Among female public renters, it increased even more, from 85 per cent to 96 per cent.

(b) Females



Source: Authors' own calculations from 1982 and 2002 SIHCs.

Note:

a. There are 1,419 (1,723) unwaged males (females) with unwaged partners in the 1982 SIHC, and 440 (611) males (females) with unwaged partners in the 2002 SIHC. Unwaged persons who own businesses or rental properties are excluded. Further details on sample numbers can be obtained from the authors upon request.

Female sole parents have increased their share of all households from 6 per cent to 10 per cent and this is impacting on the demographic profile of HA recipients. Female sole parents are a growing proportion of tenants in public housing – up from 26 per cent in 1982 to 39 per cent of working age tenants in 2002. But there has been a decline in the percentage of sole parents among CRA2 recipients, from 95 per cent in 1982 to 68 per cent in 2002. However, the rapid expansion of the CRA program and the relative decline in public housing means that the majority (83 per cent) of eligible female sole parents in 2002 received HA in the form of CRA.

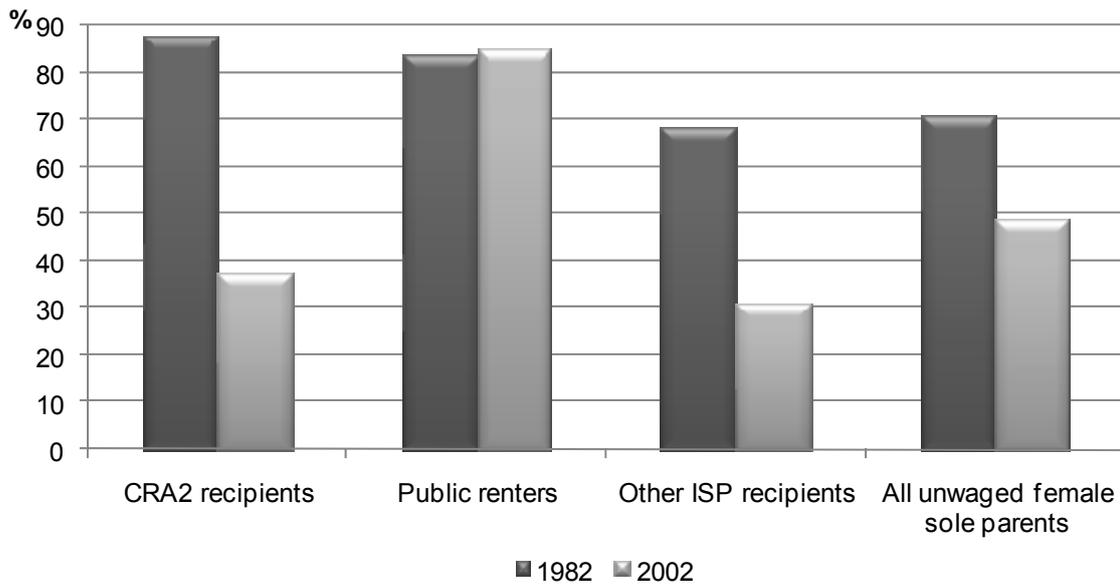
In Figure 4.5 we compare their work incentives by HA status. The proportion of female sole parents caught in unemployment traps has fallen across all groups other than public housing, where it has remained stuck at over 80 per cent. Falls are particularly pronounced among those receiving CRA2. This group's work incentives have improved in part because of the alleviation of multiple stacking problems associated with the 1987 removal of the CRA separate income test. For sole parents in all groups, the pension taper rates are lower in 2002,⁶² and the post-1982 introduction of low-income tax offsets will have further helped improve work incentives. But these changes have been insufficient to improve work incentives for sole parents in public housing. An important part of the explanation is the low wage in jobs that female sole parents in public housing can attain. Over the period 1982-2002 the real wages of full-time (part-time) employed females in public housing actually fell by 5 per cent (10 per cent).⁶³ Multiple stacking is another explanation. In 2002, 84 per cent of female sole parents in public housing experienced simultaneous withdrawal of government

⁶² The Parenting Payment Single (PPS) taper rates fell from 50 per cent in 1982 to 40 per cent in 2002.

⁶³ Female private renters, owner purchasers and outright owners all benefited from real wage gains of 15 per cent, 30 per cent and 28 per cent respectively,

benefits, housing subsidies and additional tax payments over the income range defined by movement into employment. Female sole parents in other groups did not experience simultaneous changes in all three payments because they did not receive public housing subsidies. Finally, the fraction of assessable income that public renter female sole parents pay in rents has also increased since 1982. The correlation with employment outcomes is noteworthy. The employment rates for female sole parents living in public housing have remained at low levels of 16 per cent in 1982 and 19 per cent in 2002; the employment rates for female sole parent CRA2 recipients (other ISP recipients) have increased by 39 (20) percentage points to 44 per cent (40 per cent) (see Figure 4.6).

Figure 4.5: Percentage of unwaged working age female sole parents caught in unemployment traps, by HA status, 1982-2002

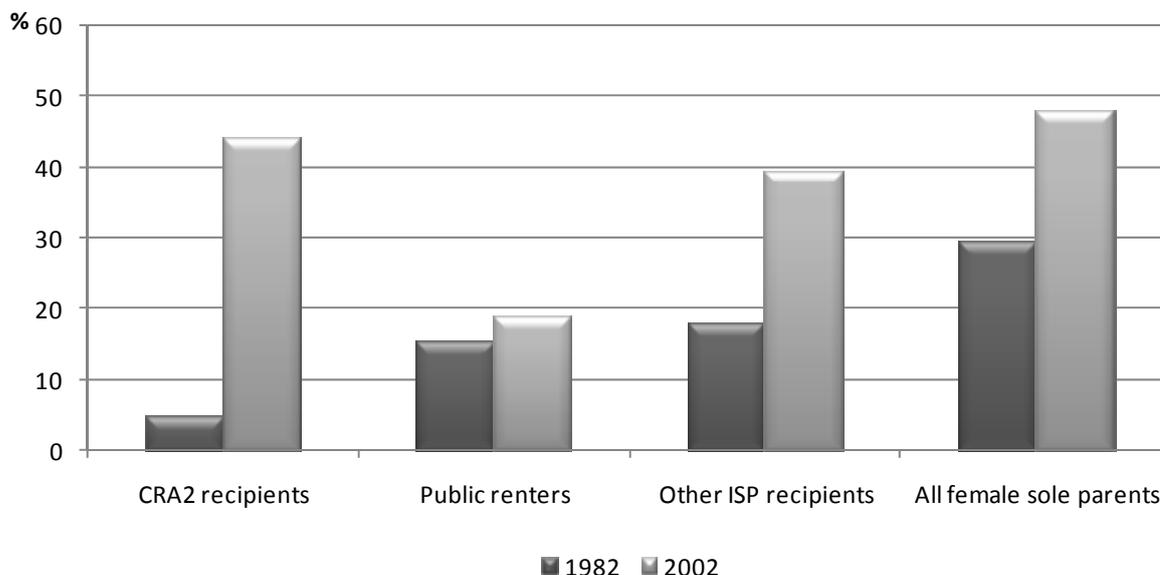


Source: Authors' own calculations from 1982 and 2002 SIHCs.

Note:

a. There are 493 (347) unwaged female sole parents in the 1982 (2002) SIHC. There are no CRA1 recipients among female sole parents. Further details on sample numbers can be obtained from the authors upon request.

Figure 4.6: Employment rates of working age female sole parents, by HA status, 1982-2002



Source: Authors' own calculations from 1982 and 2002 SIHCs.

Note:

a. There are 760 (727) female sole parents in the 1982 (2002) SIHC. Further details on sample numbers can be obtained from the authors upon request.

4.3 Policy reform simulations: impacts on poverty and unemployment traps

Most housing policy analyses neglect impacts on work incentives, and concentrate on housing affordability, SHA revenues and so on. We take a reform that has been frequently advocated by some in the housing policy fraternity – the extension of CRA to public housing tenants – and instead measure the impacts on tenants' work incentives. The measurement exercise is with respect to a potential reform, but can just as easily be applied to actual reforms, including state government initiatives. We illustrate such an application by measuring the impact of Western Australia's working allowance initiative. Finally we measure the contribution that CRA makes to poverty and unemployment traps by measuring EMTRs and replacement rates if there were no CRA. Each of these research tasks uses the tax benefit simulator of AHURI-3M, AHURI's microsimulation model of the Australian housing market. It has a potentially helpful function as a source of policy reform simulations that measure impacts on policy goals.

4.3.1 Public housing rent reform

Currently, public housing rebated rents are set at approximately 25 per cent of assessable income. The direct link between rents and income is severed if CRA eligibility is extended to public renters while charging them market rents instead of rebated rents. We have estimated the impacts on replacement rates of this and other reforms that cut the link with incomes.⁶⁴ If public housing tenants were charged market rents and CRA eligibility was extended to them, the 2002 (1982) median

⁶⁴ Recall that SHAs set rents relative to assessable income measures, not gross income from all sources. Refer to Wood et al. (2007) for details of all simulation exercises including measurement of impacts if public housing rents are frozen at current levels and then, say, indexed to the CPI, or if subsidy in the form of concessional rents and CRA were not extended to public housing tenants.

replacement rate would be 8 (4) percentage points lower, and the incidence of unemployment traps would fall by 25 (2) percentage points from 44 per cent (33 per cent) to 18 per cent (31 per cent) of all public housing tenants. The much smaller impact in 1982 arises because an estimated 30 per cent of public renters were paying market rents back then, and this declined to only 10 per cent by 2002. In addition, CRA was a small program in 1982, with eligibility extending to only a small minority of renters, and the separate CRA income test exacerbated problems of multiple stacking. According to these estimates, reforms to HA will have a bigger impact on work incentives in contemporary labour market and fiscal policy circumstances. It is nevertheless apparent that median replacement rates remain at relatively high levels, despite what would be a radical reform of HA programs. Moreover, there is a trade-off with housing affordability outcomes. Under the existing policy regime, rebated rents are on average 20 per cent of gross income from all sources, and only 5,914 (1.6 per cent) working age public renter income units are in housing affordability stress.⁶⁵ After the reforms, we estimate that rents net of CRA are on average 29 per cent of gross income from all sources, and 128,700 (34 per cent) working age public renter income units would be in housing affordability stress.⁶⁶ Thus 122,786 households would find themselves in housing affordability stress as a result of this reform. Whether such modest impacts on work incentives would impact on hours of work and 'welfare to work' goals is a policy question taken up in Chapter 5.

Table 4.1: Work incentives and housing affordability outcomes before and after public housing rent reform, 2002, per cent

	<i>Before reform</i>	<i>After reform</i>
<i>Work incentives</i>		
Mean replacement rate	70.9	63.9
Median replacement rate	73.5	65.7
Percentage in unemployment trap	43.2	17.5
<i>Housing affordability</i>		
Mean housing affordability ratio	19.7	28.7
Median housing affordability ratio	21.9	24.5
Percentage in housing affordability stress	1.6	34.4

Source: Authors' own calculations from 1982 and 2002 SIHCs.

4.3.2 Working allowance reform

In Western Australia, an open-ended working allowance of \$30 per week is deducted from the gross wage and hence assessable income of each working household member over the age of 21 years. This has been in place since 1995 (DHW, n.d.), and aims to moderate the increase in rebated rents following a transition into employment. With rebated rents typically set at 25 per cent of assessable income, working tenants will generally pay rents that are \$7.50 per week (\$390 per annum) less than would otherwise be the case. Where a tenant has a disability, the working allowance is \$50 per week and the reduction in rent is \$12.50 per week (\$650 per annum).⁶⁷

⁶⁵ Households are in housing affordability stress when their rent payments net of HA exceed 30 per cent of gross income unit income.

⁶⁶ At 2002 prices, average annual housing costs increase from \$3,536 to \$4,667.

⁶⁷ The market rent cap means that not all tenants making a transition into employment will fully benefit from the allowance. Estimates from the 2002-03 SIHC show that one-third of Western Australian public housing tenants will not fully benefit from the allowance due to the application of the market rent cap.

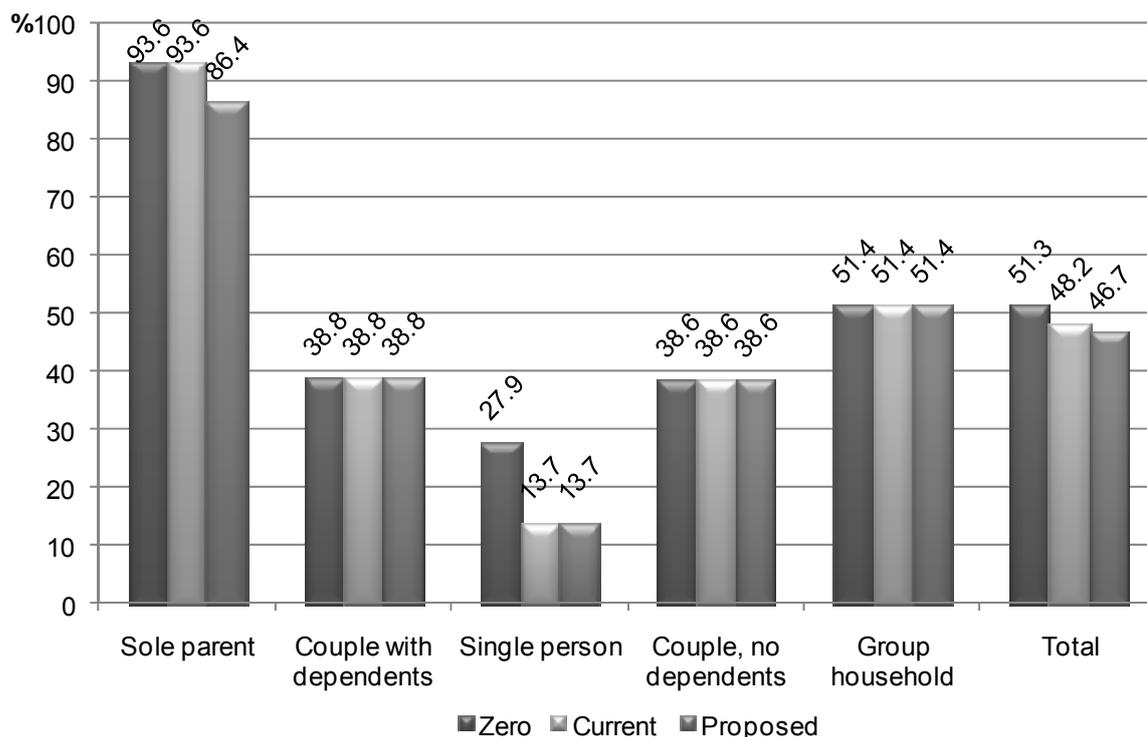
The Western Australian SHA has proposed changes to the working allowance which, if implemented, would increase the amount to \$75 for sole parents and couples with dependents, and \$50 per week for those with no dependents. For disabled persons, the proposed increase is to \$75 per week regardless of income unit type. However, the changes are accompanied by the introduction of a limit such that only one allowance is available to each household. The improvement in singles' and sole parents' financial position is then typically greater than that of couples because the proposed allowance is structured on a per household rather than per person basis. The reforms offer an opportunity to gauge the effectiveness of state government reform to rent setting arrangements in addressing work incentive issues.

The estimates presented here are based on the SIHC, but have been validated using HILDA.⁶⁸ Median replacement rates for all Western Australian public housing tenants are 74.1 per cent without a working allowance. If introduced at the more generous levels proposed, median replacement rates are estimated to fall by only 1 percentage point to 72.9 per cent. Under the less generous allowance, the reduction in the median to 71.1 per cent is greater at 3 percentage points. This surprising outcome arises because rationing on a per household basis results in job rich tenant households losing an allowance. These falls are modest, and suggest a limited scope for state governments to do anything about work incentives. It also suggests that they might want to carefully consider how they structure such programs.

Figure 4.7 shows the percentage of tenants caught in severe unemployment traps. With no working allowance, the percentage is 51 per cent. Under the more generous arrangement, this falls by 4 percentage points to 47 per cent. Under the less generous (but unrationed) arrangement, the decline is not very much different at 3 percentage points. Not surprisingly, the proposed working allowance program is most effective for sole parent and single person households as the per household provisions do not affect these households. Under the proposed more generous changes, 51 per cent (8 per cent) of single persons (sole parents) 'escape' unemployment traps.

⁶⁸ Details available from the authors on request.

Figure 4.7: Percentage of unwaged working age public renters caught in unemployment traps under alternative working allowance scenarios



Source: Authors' own calculations from 2002 SIHC

4.3.3 Does CRA aggravate poverty and unemployment traps?

We do not expect CRA to have a large impact on EMTRs and replacement rates. This is because it is not subject to a separate income test and so entitlements are withdrawn once the income unit has lost its entitlement to the ISP that determines eligibility for CRA. This prevents the simultaneous withdrawal of the 'passport' ISP and CRA. It also means that CRA is received by people higher up the income distribution, and so it is common for those obtaining low wage and part-time jobs to continue to receive some CRA. This helps to boost the income of those occupying such jobs when employed. We offer evidence in support of these a priori hypotheses by conducting a hypothetical 'policy on, policy off' exercise; our EMTR and replacement rate measures are first calculated under present arrangements, and then under a scenario in which the CRA program is stopped. The estimates presented in this section are generated by applying AHURI-3M to HILDA rather than SIHC.⁶⁹

Unsurprisingly, CRA makes little if any contribution to the incidence of poverty traps. The median EMTR of single private renters increases by 3.4 percentage points (from 71.5 per cent to 74.9 per cent) and there is a small increase in the proportion caught in poverty traps (from 57.5 per cent to 58.3 per cent). All other household groups are unaffected. It turns out that very few private renters fall in the income ranges where EMTRs would be affected. These income ranges begin at the point where entitlement to the passport ISP is lost. This is the income level where CRA begins to be

⁶⁹ HILDA is used for the modelling of labour supply conducted in the next chapter. The estimates reported here will prove helpful when we interpret the findings from these modelling exercises. Estimates from SIHC can be obtained from the authors, and brief comments on these estimates are made in the notes to Tables 4.1 and 4.2.

withdrawn and hence EMTRs are impacted. Our sample contains 388 income units in private renting, but only 21 (5 per cent) have incomes in the range where CRA is being withdrawn and are paying a rent above the minimum threshold where entitlements are paid.

Table 4.2 presents findings with respect to unemployment traps as measured by median replacement rates. Here we find that impacts are more substantial, with all household types affected, though singles are impacted more than other. Typically a little more than three-quarters of income when employed is replaced and CRA helps to replace 2.6 per cent of that income (when employed), rising to 3.7 per cent for singles. CRA therefore makes a modest impact on the median, but with a benchmark 75 per cent replacement rate measure, the proportion of recipients caught in unemployment traps is more seriously affected (see Table 4.3). In a 'policy off' regime, 46 per cent of eligible renters are caught, but with the introduction of CRA ('policy on') this increases to 54 per cent. Thus around 8 per cent of CRA recipients are tipped into unemployment traps as a result of CRA, and this becomes nearly one in 10 of single recipients.

These findings would suggest that CRA will have little effect on the hours of work chosen by employed CRA recipients since the EMTRs of most eligible renters are unaffected. On the other hand, CRA does help cushion falls in income consequent on losing or quitting employment, and this is particularly evident among singles. It is typically a modest contribution to income replacement (see Table 2.2, Chapter 2) and so large impacts on employment participation outcomes are not anticipated. The impact would be larger but for the fact that our predicted wage outcomes for eligible renters are relatively low, so 95 per cent of unwaged CRA recipients continue to receive maximum or part CRA at their expected incomes when employed. By withdrawing CRA once eligibility to the passport ISP is lost, adverse impacts on work incentives are curbed because receipt of CRA is extended further up the income range, and most non-participants will continue to receive maximum or part CRA on transition into work. Finally, there are no impacts on the financial returns to work if a non-participant ISP recipient is paying rent below the minimum rent threshold; there are 4 per cent of ISP recipients in this position.

Table 4.2: Median replacement rates of unwaged working age private renters in CRA eligible income units, with and without CRA, 2001-02, per cent^a

<i>Income unit type</i>	<i>With CRA</i>	<i>No CRA</i>	<i>Percentage point change</i>	<i>Sample</i>
Couple with dependent children	79.0	77.7	-1.4	126
Couple only	72.9	70.5	-2.4	41
Sole parent	80.6	79.1	-1.4	82
Single	66.1	62.4	-3.7	107
Total	75.9	73.3	-2.6	356

Source: Authors' own calculations from HILDA Wave 2

Note:

a. Estimates from SIHC largely confirm the patterns reported in Table 4.1. For the sample of eligible private renters in SIHC, the median replacement rate falls from 67 per cent to 63 per cent.

Table 4.3: Percentage of unwaged working age private renters in CRA eligible income units caught in unemployment trap, with and without CRA, 2001-02, per cent

<i>Income unit type</i>	<i>With CRA</i>	<i>No CRA</i>	<i>Percentage point change</i>
Couple with dependent children	62.7	54.8	-7.9
Couple only	46.3	39.0	-7.3
Sole parent	70.7	64.6	-6.1
Single	33.6	24.3	-9.3
Total	53.9	46.1	-7.9

Source: Authors' own calculations from HILDA Wave 2

4.4 Summary and conclusions

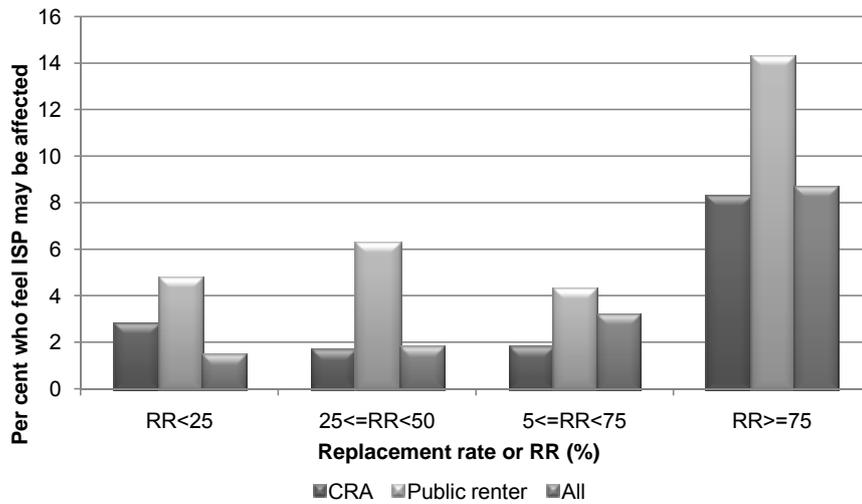
This chapter presents some important evidence on the relationship between HA and measures of work incentives. It has also conducted microsimulations using AHURI-3M that shed light on reform measures and their likely impacts on work incentives. The following conclusions and policy implications emerge from the analyses.

- Among employed HA and ISP recipients poverty traps are less severe among public housing tenants. If they work, these tenants are more likely to work full-time. Part-time workers are more prone to poverty traps.
- Most employed CRA1 recipients are caught in poverty traps because they were subject to the Newstart or Youth Allowance upper taper rate of 70 per cent in 2002. CRA contributes to the problem by extending the income range over which a worker is caught in poverty traps.
- Among employed ISP recipients, the incidence of poverty traps increased over the 1982-2002 timeframe, and this trend also affects tenants in public.
- The incidence of unemployment traps among non-participants has also increased, though in this case it is particularly evident among public housing tenants. On the other hand, changes to CRA arrangements that have addressed multiple stacking problems have caused a decline in the incidence of unemployment traps among female recipients. CRA entitlements are only withdrawn once the passport benefit or pension is zero; since many CRA recipients would get low wage jobs if employed, they continue to receive some or all their CRA on entry into the workforce. The consequence is that CRA has little impact on financial rewards to employment.
- A gender difference is apparent, with a much higher proportion of non-participant women caught in unemployment traps.
- Around one-quarter of adults in jobless couples are caught in unemployment traps, and this increases to over 50 per cent of females in jobless couples resident in public housing. The multiple stacking problem is a major cause, as is decline in real wages paid for jobs typical of employing public housing tenants. This problem is further exacerbated by the introduction of means-tested family payments that replaced the universal family allowance in 1987.
- There is a growing incidence of female sole parents in working age public housing tenants, increasing from 26 per cent to 39 per cent between 1982 and 2002. Unemployment traps affect over 80 per cent of working age female sole parents in public housing. They have not shared in a general fall in the incidence of unemployment traps among female sole parents. There is a strong correlation between sole parent employment rates and HA status.

- Even radical reforms to HA would have modest impacts on the median replacement rates (work incentive measures) of public housing tenants. However, they could have more noticeable impacts on the numbers caught in unemployment traps. We estimate that one-quarter of tenants caught in such traps would 'escape' if CRA was extended to public housing tenants. This finding reflects a cluster at or just above the threshold defining unemployment traps. Among public housing tenants, about 18 per cent have replacement rates between 75 per cent and 80 per cent under existing arrangements, and they are 41 per cent of public renters caught in unemployment traps. Reforms of this kind will involve a trade-off with housing affordability, and policy makers might wish to consider this in evaluating such proposals.
- The limited scope of reforms that SHAs could introduce limits to their ability to address work incentive issues. A concerted Commonwealth-state 'whole of government' approach to fiscal arrangements is required if substantive progress is to be achieved on work incentives.
- However, modest improvements in work incentives brought about by HA reform may be sufficient to bring forth a large increase in employment participation. We address this issue in the next chapter.

The evidence presented in this chapter is solely concerned with measurement of work incentives. It does not ask whether the labour market behaviour of HA recipients is affected by these incentives. In the HILDA Survey, persons who are not working and not looking for work, but indicate that they would like a job, are asked their reasons for not looking for one. One of the potential responses includes 'welfare payment/pension may be affected'. Figure 4.8 shows the proportion of respondents aged 25 to 64 who indicated that this was a factor at replacement rates of less than 25 per cent, 25 per cent to less than 50 per cent, 50 per cent to less than 75 per cent, and 75 per cent and higher. The bar charts are presented for CRA recipients, public renters and all respondents in the sample, regardless of whether they receive HA or not. The pattern is similar across the groups, with the proportion of respondents citing welfare payments or pensions increasing as replacement rates increase. But it is always highest among public housing tenants, and the increase is clearly steeper for public housing tenants, rising from 5 per cent to 14 per cent of public housing tenants as replacement rates increase from under 25 per cent to 75 per cent or over. This is evidence suggestive of a behavioural response. In the next chapter we offer quantitative estimates of the impact of HA and work incentive measures on labour market behaviour.

Figure 4.8: Percentage of persons aged 25 to 64 who would like a job but are NILF because their ISPs may be affected^{ab}



Source: Authors' own calculations from HILDA Waves 1-3

Notes:

a. The replacement rate estimates in this table are a variant of those presented in other parts of this report. The replacement rate estimates in this table are the percentage of gross wage that would be forfeited due to the withdrawal of ISPs and HA and increases in tax liabilities. This is the measure used in some of the econometric models reported in Chapter 5.

b. There are 444 CRA and 244 public renter person-year observations. In total, there are 2,218 person-year observations. The estimates are not calculated on a person basis because HA status, replacement rates and response to the relevant survey question vary from year to year for the same person.

5 WORK INCENTIVES, COMMONWEALTH RENT ASSISTANCE AND LABOUR SUPPLY: EVIDENCE FROM HILDA

5.1 Introduction

Our focus in the preceding chapter was on the financial rewards to work and how these are impacted by HA programs. We find that those receiving HA are generally more prone to poverty and unemployment traps, and this is particularly apparent among sole parents in public housing. However, HA per se is not primarily responsible.

The modelling work presented in this chapter investigates whether HA, and in particular CRA, impacts labour market behaviour. Do those eligible for such HA work fewer hours? Might eligibility motivate some to exit from employment? Among non-participants (the unemployed or NILF), does eligibility result in a lower probability of securing employment? These questions are critical to the policy debate. The motivation to reform programs is weakened (strengthened) if those programs are shown to have little (strong) effect on the policy goal in question, in this case, work incentives and economic participation.

We begin in Section 5.2 by describing our research approach, which applies different regression model specifications to samples drawn from the HILDA Survey. The research strategy's advantages include a capacity to quantify the strength of links between work incentives and labour supply; its weaknesses include a failure to include those factors that may not be measured in the secondary data sets employed in the modelling. The qualitative research reported in Chapter 8 addresses this concern. Section 5.3 presents key findings that include a simulation of the CRA program's impacts on employment participation. A final section concludes.

5.2 Research methods

The principal difficulty confronting those modelling the relationship between HA and economic participation arises because HA is endogenous. In Chapter 2 we described this problem as having two sources – reverse causation (or simultaneity) and omitted variables. The hypothesis we wish to test assumes a sequence of causation where changes in HA impact on employment outcomes because they blunt work incentives. But reverse causation eventuates if the low incomes that result from inferior employment outcomes also lead to eligibility for HA. Identifying cause and effect relationships is not straightforward and poses challenges to researchers. These challenges are added to when there are unobservable or unmeasured variables ('unobservables'), such as ability, that are correlated with both HA status and employment outcomes. Ability is unevenly distributed across the population, but is typically an unmeasured variable in micro data sets. A low level of ability is positively correlated with both unemployment and the low incomes that result in eligibility for CRA. Unless steps are taken to address the issue, researchers can confound the effect of the unmeasured ability variable and falsely attribute its adverse impact on employment outcomes to HA, income support programs and work disincentives.

The NRV1 researchers employ three strategies to address these problems. The first chooses a sample that is deliberately designed to minimise systematic variation in unobserved variables across treatment (those receiving HA) and control (those not receiving HA) groups. An example in the current context is a sample of renters who are all eligible for income support programs, some receiving CRA, others not. It might be reasonable to assume that unobservables correlated with eligibility for CRA and

employment outcomes are invariant across this sample design; low income is necessary to become eligible for ISP and so it might be argued that this pool of beneficiaries are equally employable, and the only distinguishing characteristic is CRA eligibility.

There are two weaknesses here. Firstly, meeting program means-test criteria can result in reverse causation. With CRA there is a minimum threshold that rent payments must exceed, and this is more likely in buoyant housing markets where employment opportunities are abundant. Conversely, stagnant housing markets accompanying weak labour market conditions can result in low levels of CRA eligibility because rents are low. If CRA blunts work incentives, the effects will be difficult to identify because eligibility is positively correlated with residence in areas with abundant employment opportunities. Secondly, findings that are derived by restricted sample designs are not easily generalised to the rest of the population.

The first of these objections can be addressed by use of natural experiment study designs. These seek out random treatments that unintentionally arise when the parameters of a public policy program are applied. A classic example is when admission into a program is contingent on birth date (Angrist and Krueger, 1991), and different amounts of assistance (e.g. education or training) are then received depending upon birth date. Because birth date is unrelated to unobservable omitted variables influencing labour market outcomes, variations in program assistance that accompany it will be unaffected by unobservables and clearly cannot be caused by labour market outcomes.⁷⁰

The researchers adopt a second strategy that jointly estimates models of labour supply and enrolment in HA programs. The HA model is 'identified' by the inclusion of variables that influence the likelihood of enrolment but are unrelated to labour market outcomes. The strategy is known as an instrumental variable approach, and it is applied in the current context by using variables such as father's employment status when the individual was growing up as 'instruments' in the model explaining enrolment in the CRA program.

A third strategy exploits the panel characteristics of the HILDA data set to address problems of reverse causation. When transitions into unemployment (or NILF) are followed by eligibility for HA, the ordering of events is unemployment, then HA status; but if we model unemployment at a particular point in time, say, July 2002, and relate it to the preceding HA status of individuals, say, one year before the unemployment measure, in July 2001, we know that unemployment status in 2002 cannot 'cause' HA status in 2001. The lagged value of a HA variable is then used in this strategy, and becomes possible when using panel data because observations on the relevant variables are available for the same individual at different points in time.

The modelling described in this chapter uses the confidentialised unit record file from the HILDA Survey (see Section 3.2.1, Chapter 3). It is a panel data set that permits each of these three strategies to be employed. In Table 5.1, key socioeconomic characteristics of CRA recipients, along with other population groups, are set out. These groups are those who receive CRA by virtue of the receipt of a government benefit, pension or allowance (column 1), those who receive CRA by virtue of receipt of family tax benefit (FTB, column 2),⁷¹ those who receive a government payment,

⁷⁰ An example of this natural experiment study design can be found in Chapter 6 where we use variation in HA associated with the gender mix of children. See also Chapter 3 where these issues are discussed in detail.

⁷¹ Details of how the CRA program is applied can be found in NRV1 Research Paper 1 (Wood et al., 2005a) and Chapter 2 of this report.

such as a pension, benefit or allowance, including FTB, but do not receive CRA (column 3), and those who do not receive CRA (column 4). The sample selected is that of working age (16 to 64) non-disabled individuals.

In general, the characteristics of individuals are plausible. For example, CRA recipients (benefits) are generally younger (33.7 years) compared to non-HA individuals (39 years of age), which is to be expected as younger individuals are less likely to be homeowners. Those receiving CRA by virtue of a benefit payment are less likely to be married (18 per cent) compared to the other groups considered in Table 5.1, and are also less likely to be in households containing children.

There are similarly stark differences in the labour market patterns. For example, those who receive CRA (benefits) are much less likely to be employed full-time (4 per cent) compared to those not receiving HA (52 per cent). The full-time employment rate among CRA (FTB) recipients is somewhat higher at 11 per cent. Recall that CRA is a supplementary payment available to individuals who receive a government payment. Many of these individuals will be receiving Newstart Allowance and hence will be classified as unemployed. Note, however, that rates of part-time employment are similar among CRA recipients (approximately 24 per cent) and non-HA individuals (23 per cent, column 4). This reflects the fact that many individuals combine the receipt of government transfers, including CRA, with some participation in the labour market.⁷² It is noteworthy, however, that individuals who receive benefits but not CRA (column 3) exhibit higher part-time and full-time employment rates compared to CRA recipients (32 per cent and 19 per cent respectively).⁷³

⁷² Our replacement rate measurement exercise in Chapter 4 predicts that over 90 per cent of non-participant CRA recipients will continue to receive CRA on transition into employment.

⁷³ Note that the sample is working age non-disabled adults. The employment rates calculated here are not then directly comparable with those in Chapter 2 where the sample includes recipients of DSP.

Table 5.1: Selected characteristics of respondents in HILDA wave 1

	<i>CRA recipients</i>		<i>Non-CRA benefit recipients (3)</i>	<i>Non-HA recipients (4)</i>
	<i>Benefit recipients (1)</i>	<i>FTB (2)</i>		
Male	0.53	0.06	0.13	0.44
Age (years)	33.74	32.11	40.58	38.94
Married or partnered	0.18	0.43	0.76	0.70
Household size	1.98	3.61	3.65	3.21
Presence child aged < 2	0.01	0.44	0.24	0.15
No. child. aged 0-4	0.02	0.80	0.45	0.27
No. child. aged 5-9	0.03	0.61	0.44	0.26
No. child. aged 10-14	0.02	0.43	0.42	0.27
State/Territory				
New South Wales	0.28	0.36	0.31	0.34
Victoria	0.20	0.18	0.24	0.24
Queensland	0.25	0.28	0.19	0.19
South Australia	0.13	0.07	0.10	0.08
Western Australia	0.10	0.08	0.11	0.10
Tasmania	0.04	0.03	0.03	0.02
Northern Territory	0.00	0.00	0.01	0.01
Australian Capital Territory	0.00	0.00	0.01	0.02
Education				
University	0.05	0.10	0.14	0.20
Diploma	0.03	0.07	0.09	0.09
Certificate	0.14	0.15	0.16	0.19
High school	0.35	0.17	0.17	0.17
Less than high school	0.42	0.50	0.45	0.35
Employment status				
Employed full-time	0.04	0.11	0.19	0.52
Employed part-time	0.25	0.23	0.32	0.23
Unemployed	0.40	0.07	0.07	0.04
Not in labour force	0.31	0.58	0.42	0.21
Has health condition	0.16	0.10	0.09	0.08
Australian born	0.74	0.69	0.70	0.72
Migrant (English-speaking)	0.09	0.14	0.09	0.11
Migrant (non-English-speaking)	0.17	0.17	0.21	0.17
Has siblings	0.95	0.98	0.96	0.96
Number siblings	3.33	3.49	3.17	2.83
Fathers occupation	42.65	38.83	39.89	43.05
Father employed when respondent aged 14	0.89	0.87	0.89	0.87
Father unemployed =>6 months	0.18	0.21	0.11	0.10
Monthly rent (if renter)	645.47	721.20	582.43	816.64
Receive CRA	1.00	1.00	.	.
Amount CRA (if received)	1448	2348	.	.
Sample size	157	313	1,860	9,885
Weighted population	159,088	303,261	1,789,242	10,286,718

Source: Whelan and Ong (2007)

Other variables are also worthy of discussion because of their correlation with HA status. For example, on average, CRA recipients have 3.33 siblings (column 1) and

3.49 siblings (column 2). In comparison, those who receive a government payment but do not receive CRA have 3.17 siblings on average, and those who receive no HA have approximately 2.83 siblings. Recipients of CRA are more likely to have been in a household where their father was unemployed for six months or more (18 per cent and 21 per cent in columns 1 and 2) compared to non-HA individuals (10 per cent in column 5). These correlations are important because we would not expect a direct causal link between variables such as number of siblings and employment status. Variation in HA eligibility rates that is associated with, say, number of siblings is not the consequence of employment status. It is a suitable candidate for the role of an identifying variable in the joint modelling approach described above.

5.3 Modelling results: Housing Assistance and labour supply behaviour

The results reported in this chapter are estimated from two types of regression models. The first are designed for application to participation decisions where an either/or decision is chosen. In the present context, the decision is between participation in waged employment, or non-participation (unemployed or NILF). The models yield coefficient estimates that can be transformed into marginal effect estimates that have a ready interpretation, because they represent the change in probability of employment when a particular characteristic/attribute is present.⁷⁴ One of the characteristics that we include in the model is eligibility for CRA, and in this way we are able to quantify the impact of participation in the CRA program on likelihood of being employed. A second type of regression model is applied to estimate the effect of CRA on hours of work, a measure of labour supply where there are a large number of zero observations. Measures like this require application of particular estimation techniques if they are to yield unbiased and efficient measures of the impact of CRA.⁷⁵

Some model estimates of the participation decision are presented in Table 5.2. They extend the research in Whelan (2004) in three important ways. First, additional waves of data from the HILDA data set are now available for analysis purposes. This makes it possible to consider the relationship between HA and labour market behaviour in a more robust manner. Second, the identification of CRA recipients proceeds in a different manner to that in the earlier study. The approach draws on the tax benefit simulator described in Wood et al. (2005a). Finally, there is further experimentation with identifying variables in HA participation models to address endogeneity issues, and alternative measures of CRA that might offer more precise estimates.

The statistical analysis uses the first two waves of the HILDA data set. In particular, we use a sample of working aged non-disabled individuals in which the data is pooled across the two waves; each individual is then observed at two points in time and their employment participation and HA status is observed at those two points in time. It is standard practice in employment participation models to employ ‘controls’ for demographics and location; also of critical importance is labour market history, training, educational qualifications and so on that comprise a worker’s human capital and help determine the financial returns to work. The role of these human capital variables is captured by a predicted wages variable for all individuals in the sample that is derived from a preliminary analysis of the data (Whelan and Ong, 2007, Appendix B).

⁷⁴ The marginal effect has a somewhat different interpretation when applied to a continuous variable. It is the change in probability with respect to a 1 per cent change in the continuous variable.

⁷⁵ A Tobit model is estimated. For technical details see Whelan and Ong (2007, ch. 5) and references they cite.

Two samples are chosen for estimation purposes. The larger of the two is all recipients of an ISP (benefits), and the marginal effect estimates are presented in column 1. Our rationale for such a sample design is that unobservables are unlikely to be correlated with CRA and employment outcomes because benefit recipients share the same characteristics (see Section 5.2).

Table 5.2: Labour force participation models

	<i>Marginal effects (1) %</i>	<i>Marginal effects (2) %</i>
Wave	-2.34	-1.20
Age	-0.30	-0.33
(Age) ²	0.00	0.00
Male	-5.63	-8.76**
Married or partnered	-11.20*	-12.80*
Less than high school	-8.31**	-9.51
Completed high school	-0.69	3.29
Presence child aged < 2 years	-14.57*	-18.10*
Australian born	11.50*	11.27**
Sydney	-3.30	-4.37
Melbourne	8.69**	15.66**
Brisbane	1.94	1.15
Adelaide	14.17**	18.82
Perth	11.72**	12.67
Non-labour income ('000s)	-13.58*	-21.89*
Predicted wage	3.05*	3.85**
Receive CRA	-6.57**	-7.52
Sample size	1389	688

Source: Whelan and Ong (2007)

Note:

* Significant at 1 per cent level; ** Significant at 5 per cent level

The sample used in column 1 is all benefit recipients. In column 2 the sample is benefit recipients who rent.

The results are generally consistent with the findings from other empirical studies of labour market behaviour, and conform to expectations based on theories of employment participation. For example, those individuals with relatively low levels of education and relatively low predicted wages are less likely to be employed, as indicated by the negative and significant coefficients on the 'less than high school' and predicted wages variables. The presence of a child aged less than two years of age also results in labour force participation being less likely. Similarly, higher non-labour income that includes benefits is associated with a substantially lower probability that the individual is employed. We return to this finding later, as it has a role in helping to interpret findings with respect to CRA.

Of principal interest in the present context is the effect of receiving CRA on the probability that an individual is engaged in employment. The sample of all benefit recipients suggests that CRA has a negative impact; the marginal effect estimate in column 1 indicates that the receipt of CRA reduces the probability of being employed by approximately 6.5 percentage points.

A difficulty here is that the sample includes homeowners, and it is therefore difficult to separately identify the impact of tenure and CRA receipt.⁷⁶ To counter this problem, the model estimates in column 2 use a smaller sample that includes only those who are renting in the private rental market. Again, the receipt of CRA is associated with a lower probability of labour force participation of approximately 7.5 percentage points for an 'average person', though tests of statistical significance indicate that these estimates are only weakly significant, if at all. As an illustration of the size of this effect, consider the following person type: a male in our sample who is aged approximately 32, is Australian born, unmarried, has not completed high school and lives in Sydney. Our model predicts that eligibility for CRA lowers his probability of employment from 14.6 per cent to 8.6 per cent.

Replication of these findings for alternative samples, other measures of CRA and participation, and using different estimation methods helps to build confidence in conclusions based on the findings. Whelan and Ong (2007) and Dockery et al. (2007a) have experimented along each of these various lines of investigation. Whelan and Ong (2007, Table 5.1) report results from a more sophisticated approach that jointly models the factors shaping eligibility for CRA and the factors determining employment outcomes. The method uses instrumental variables to separately identify the effects of CRA program participation on employment outcomes from the effects of employment participation on CRA eligibility. Once again, the receipt of CRA is associated with a lower probability of employment, but tests of statistical significance indicate that little confidence can be placed in the association.

The measures of employment and CRA used so far are crude 'either/or' measures that may obscure relationships which only become evident on using more precise measures. A second series of models employs hours of work as an alternative measure of employment outcome, and the level of CRA received as an alternative to CRA eligibility.⁷⁷ Each of the alternative variable combinations confirms 'that among benefit recipients who are privately renting, the higher is the value of the CRA received the lower is the probability that the individual is observed to be participating in the labour market' (Whelan and Ong, 2007, p. 50). But the findings are once again sensitive to the sample design and at best are weakly significant in a statistical sense.

We conclude this chapter's summary of empirical findings by briefly reporting on the employment participation modelling reported in Dockery et al. (2007a). This is again based on use of the HILDA Survey but exploits the panel character of the data set to address the problem of endogeneity. This is the third strategy described in Section 5.2. It also implicitly rather than explicitly measures the work incentive impacts that CRA has on labour supply behaviour because it uses replacement rates as the work incentive measure. CRA does of course affect replacement rates (see Chapter 4), but in this research approach its impacts must be disentangled from those of other ISPs.

The sample used for estimation is the pool of adults that have been unemployed or NILF in one or more of the first four waves of the HILDA Survey. The modelling aims

⁷⁶ Homeowners may be more motivated to work in order to pay off the mortgage and become outright owners, but this is negatively correlated with CRA status, thus making it difficult to disentangle channels through which tenure and CRA can impact employment outcomes.

⁷⁷ Once again estimation is conducted using two sample designs – all benefit recipients, and benefit recipients that rent. Endogeneity problems are addressed by jointly modelling the level of CRA and hours of work, using identifying instruments that include the employment history of the individual's father, and the maximum level of CRA that s/he could receive given his/her family structure. The maximum entitlement to CRA variable has a rationale similar to that invoked by Currie and Yelowitz (1998) and Painter (2000) when including the fair market rent in their models using US data. The fair market rent is the maximum HA that an eligible US resident can obtain. Ong (1998) uses 30 per cent of maximum welfare entitlements. The results are presented in Whelan and Ong (Tables 5.2 and 5.3).

to estimate the probability that a person unemployed or NILF when observed in wave t will make a transition into employment in wave $t+1$. The key hypothesis tested is whether differences in the replacement rate at wave t impact on the probability of becoming employed in wave $t+1$.⁷⁸

To test this hypothesis, standard modelling techniques are applied to estimate transition into employment probabilities. The models are estimated separately by gender, and for persons who are NILF and persons who are unemployed, to allow for the fact that the effects of the replacement rate and other 'controls' are likely to differ between these groups. A typical list of control variables is used; they include age, marital status, the presence of resident children, labour market history, English language proficiency, health status, level of education, the individual's unearned income and their partner's income (earned and unearned).

We concentrate our attention on the critical replacement rate variable.⁷⁹ Consider first the results for persons who were NILF. The replacement rate's estimated effect is negative and of similar magnitude for both women and men, though in the latter case the estimate is not significant in a statistical sense. As in the research work completed by Whelan and Ong (2007), the estimates are again sensitive to alternative sample designs. To illustrate the economic significance of the estimates, the predicted probability of an individual entering employment is calculated with the replacement rate set at 0, 0.25, 0.5, 0.75 and 1; all other variables are at their mean values (see Table 5.3). The mean replacement rate is actually 30 per cent for the female sample and 36 per cent for the male sample. It can be seen that the predicted probability of entering employment for the 'average' female with a replacement rate of zero is 14.9 per cent, compared to 10.3 per cent with a replacement rate of 100 per cent. The difference of 4.6 percentage points may not seem large, but does represent a 30 per cent lower transition probability. For males, the corresponding calculation returns a 4.7 percentage point (34 per cent) lower transition probability. These predictions suggest that typical males and females who are NILF have low predicted probabilities of making a future transition into employment. Furthermore, reforms to ISPs are unlikely to make a substantial difference.

The factors shaping the entry of the unemployed into paid work may well be different since this group are actively looking for work. Again the results are consistent with expectations, the replacement rate having a negative effect indicating that higher replacement rates do create work disincentives. In this case, the estimate is statistically significant in the case of males, for whom it is of a very large magnitude. Another behavioural difference here is the much higher predicted probabilities of making a future transition into employment, 42 per cent for females and 45 per cent for males.

As shown in Table 5.3, unemployed males facing a zero replacement rate are predicted to be around twice as likely to enter employment as those who face a replacement rate of 100 per cent (a 30.7 percentage point difference). The actual mean replacement rate for this group is 0.47 with a standard deviation of 0.23, meaning that around two-thirds of unemployed men aged 25-64 face replacement rates lying between 0.24 and 0.70. For unemployed women, the estimated effect is

⁷⁸ There are two points of detail that should be remarked on in parenthesis. First, the sample frame omits the under-25s on the grounds that these are more commonly making decisions about whether to enrol in full-time education and training programs, rather than about whether to work or not. Second, the replacement rate measure is an average tax rate that differs somewhat from the measure reported in Chapter 4. It expresses the increase in tax liabilities and foregone ISPs as a percentage of the gross earnings from employment.

⁷⁹ See Tables 3 and 4 and accompanying commentary in Dockery et al. (2007a) for details.

much smaller, with an 11.5 percentage point difference between the predicted employment probabilities when replacement rates are 0 and 1.

Table 5.3: Predicted probability of entering employment, conditional upon selected replacement rates

<i>Replacement rate</i>	<i>From NILF to employment</i>		<i>From unemployment to employment</i>	
	<i>Females</i>	<i>Males</i>	<i>Females</i>	<i>Males</i>
Zero	14.9%	13.6%	46.5%	59.8%
0.25	13.6%	12.3%	43.5%	51.9%
0.5	12.4%	11.1%	40.6%	43.9%
0.75	11.3%	10.0%	37.8%	36.2%
1	10.3%	8.9%	35.0%	29.1%
Sample	3,724	1,504	313	361
Sample mean	13.3%	11.7%	42.2%	44.9%

Source: Dockery et al. (2007a)

It is, of course, the effects of CRA on employment probabilities that we are most interested in; we have conducted a simulation where the employment probabilities of non-participants are contrasted at replacement rates with and without CRA included. This is a 'policy on, policy off' scenario that is being modelled; the simulation has been conducted with controls set at their average values. The average replacement rate falls marginally from 73 per cent to 70 per cent. As a consequence, predicted employment probabilities are hardly affected by the presence or otherwise of CRA; even among unemployed males, where replacement rates are found to be particularly influential in determining transitions into employment, CRA reduces employment participation rates by less than one percentage point.

CRA's small impact could be due to entitlement rules. Most non-participants (94 per cent) retain full or part entitlement if they were to attain employment at the predicted wage. This is because predicted wages are low for this group, and CRA entitlement extends a considerable way up the income distribution since it is only withdrawn once entitlement to ISP is lost. Thus, in practice, CRA does little to affect the relative rewards from work for those in the pool of unemployed and NILF.

Table 5.4: Employment participation probabilities

<i>Labour force status</i>	<i>Gender</i>	<i>Employment probability</i>		<i>Percentage point change</i>
		<i>With CRA</i>	<i>No CRA</i>	
NILF	Female	12.6	12.7	0.04
	Male	11.6	11.6	0.08
	Total	12.4	12.5	0.05
Unemployed	Female	37.1	37.1	0.05
	Male	36.5	37.0	0.48
	Total	36.8	37.1	0.27
All	Female	16.2	16.3	0.04
	Male	22.0	22.3	0.03
	Total	17.8	17.9	0.10

Source: Dockery et al. (2007a)

5.4 Concluding comments

This chapter has reported findings using different regression modelling techniques, alternative measures of CRA and labour supply, and various sample designs. The consistent finding is detection of a negative relationship that, on use of statistical tests of significance, turns out to be weak. The weight of evidence would seem to suggest that CRA has only small but negative impacts on employment outcomes.

This might seem surprising in view of our results on poverty and unemployment traps. In Chapter 4 we reported that recipients of HA are more prone to poverty and unemployment traps. While this is true, our research reveals that these work disincentives primarily arise because of the 'stacking' of other ISPs and income taxation. CRA itself is a 'minor player' that makes only a small contribution to work disincentives. This is because CRA is not subject to separate income and asset means tests.

These comments should not be interpreted to mean that work incentives do not matter. The model estimates reported in Table 5.2 suggest that, among benefit recipients, a \$1,000 (per annum) increase in non-labour income lowers the probability of employment by 13.6 percentage points. There are work incentive issues to address, but among CRA recipients they can only be effectively dealt with by reforms to both ISPs (including FTB and childcare benefit) and taxation arrangements (including childcare rebates).⁸⁰ Synergies with CRA are perhaps best achieved by keeping the present program parameters, but offering to continue assistance on moves into employment subject to 'sunset clauses'. Ideas like this are discussed in more detail in Chapter 9.

⁸⁰ The May 2007 Commonwealth budget introduced reforms that could represent a significant step forward in this respect.

6 PUBLIC HOUSING TENANTS: WELFARE LOCKS, HOUSING STABILITY AND TENANT EXITS FROM PUBLIC HOUSING

6.1 Introduction

In this chapter the focus shifts to public housing tenants. According to our findings in Chapter 4, income related rents appear to have only modest impacts on measures of work incentives; we now ask whether their modest contribution has any impacts on tenant behaviour and hence labour supply. But this is not the only way that public housing and its management can impact labour market outcomes. The application of income eligibility rules to those waiting for offers of public housing can create welfare locks. Transitions into employment likely result in the breach of income eligibility thresholds, which will deter job search and the acceptance of job offers while on the wait list.⁸¹

These welfare locks are aggravated by growing wait lists and longer wait times. SHAs have sought to cut wait lists by increasing the turnover of tenants,⁸² but we know remarkably little about what shapes tenant decisions to exit or stay in public housing. We address this research question because of its links with the length of wait lists. In addition, we are interested in whether:

- Employment status is linked with decisions to exit or stay;
- There is duration dependency, such that exits become less likely the longer a tenant has resided in public housing.

These research questions have a bearing on the welfare dependency debate that has been influential in shaping the 'welfare to work' reform agenda.

The chapter is organised as follows. In Section 6.2 we describe institutional arrangements that are the source of welfare locks. The arrangements are documented for Western Australia, because we have sourced our data from this state. The section also constructs employment profiles for all working age Western Australians who applied for public housing between 1 January 1999 and 30 November 2005. We compare employment outcomes before and after entry into public housing, and find that outcomes improve following entry.

These outcomes need not be causally linked with public housing arrangements and, even if they are, they could be due to the security of tenure that public housing provides (Van Ryzin, Kaestner and Main, 2003) rather than welfare locks. Section 6.3 reports findings from the estimation of models that are designed to detect the presence and strength of causal links.

In Section 6.4 we return to income related rents and their incentive effects on labour market outcomes. We conduct a so-called natural experiment with a view to isolating the variation in public HA that can be assumed unrelated to other (unmeasured) factors shaping tenant employment outcomes. Section 6.5 analyses the length of public housing tenancies and their relationship to employment status. The findings from this exercise are important, as they turn out to be significant in shaping the policy recommendations reached in the final chapter of this report. A common thread throughout this chapter is the use of confidentialised administrative records from the DHW data base in Western Australia. Though our findings are based on Western

⁸¹ Section 2.2, Chapter 2 explains the theory behind welfare locks in public housing.

⁸² The New South Wales SHA, for example, is committed to the introduction of fixed term tenancies.

Australian data, we believe that there is sufficient uniformity in the operations of SHAs to generalise on the basis of our results.

6.2 Income eligibility tests and welfare locks

Public housing is offered at below market rents, but in insufficient amounts to meet the demand. The excess demand results in rationing, with allocation governed by queuing as applicants are placed on wait lists, with offers made once an applicant reaches the top of the list. The queue is administered by income eligibility rules that are applied on application and when the applicant reaches the top of the list.⁸³ To maintain their position in the queue, prospective tenants must therefore continue to satisfy income thresholds, otherwise an offer will not be made. While on wait lists, the time that applicants wait can be thought of as an investment. It is a sunk cost because it cannot be reversed or 'refunded' once it has been incurred. If you accept a job that takes income above the eligibility thresholds, an offer of public housing will not be made and, though income might fall in the future, the household will find themselves at the end of the queue on reapplication.

These rules create a potentially powerful welfare lock, given that wait times are typically close to one year.⁸⁴ An applicant may be deterred from accepting job offers or may reduce job search efforts because the higher income from earnings could jeopardise their position in the queue. The in-depth interviews conducted as part of NRV1 found a number of interviewees who feared that employment would jeopardise their position in the queue (see Chapter 8). As SHAs' income thresholds have fallen in real terms, the welfare lock is now binding at lower percentiles of the income distribution. In Western Australia, income eligibility thresholds remained unchanged from 1996 to 2006 (Hafekost, 2007a), and declined in real terms by 29 per cent.⁸⁵ Table 6.1 presents population estimates (from Waves 1 to 5 of HILDA) of the number and percentage of working households with assessable household income⁸⁶ below the income thresholds determining eligibility for public housing. Between 2001 and 2005, the number of income-eligible working households fell from 1,086,000 to 806,000, and there was an even sharper decline as a percentage of all working households from 22 per cent to 15 per cent. It is increasingly difficult to work and retain eligibility for public housing; the welfare lock has therefore been tightening its grip over the 2001-05 timeframe.

Table 6.1: Number and percentage of working households with assessable household income below the income thresholds determining eligibility for public housing in Western Australia

	<i>2001</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>
Number of eligible working households '000	1,086	1,066	1,009	871	806
% of all working households	21.5	20.5	19.2	16.5	14.9
Number of working age adults on wait lists	15,298	16,073	15,643	15,422	15,284

Source: Authors' own calculations from HILDA Waves 1 to 5 and DHW (2006).

⁸³ As will be explained below, the rationing of public housing is more complicated than this, but our analysis is unaffected at least as far as wait turn applicants are concerned.

⁸⁴ In Western Australia, the average wait time for individuals who entered the wait list from 1999 onwards is 10 months.

⁸⁵ Between June 1996 and June 2006, the Consumer Price Index increased from 119.8 to 154.3 (ABS, 2007a).

⁸⁶ A working household is a household with one or more employed adults. Assessable household income is measured using gross household income. Most sources of household income are assessable.

Though public housing is targeted on an increasingly narrow spectrum at the lower end of the income distribution, there is no decline in the length of Western Australian wait lists (see third row of Table 6.1). A similar number of working age Western Australians are enrolled on wait lists in each year of the timeframe.⁸⁷ These applicants have to maintain assessable household income below thresholds that have declined by 10 per cent in real terms over this five-year period. By 2005, only one in seven would be able to accept offers of employment and continue to satisfy income thresholds.

Once a wait list applicant has successfully made the transition into public housing, income eligibility limits become notional as they are not generally applied. This is because it is operationally easier to withdraw an offer of public housing to someone on the wait list, than it is to terminate the lease of resident tenants who have breached income eligibility limits but faithfully observed the terms of leases. In November 2005 17 per cent of Western Australian public housing households (who have entered since January 1999) technically breached income eligibility limits. Once a household has entered public housing there is then an abrupt change in work incentives. The welfare lock is relaxed as their tenure is not generally threatened by acceptance of a job offer. We therefore expect to observe an improvement in employment outcomes.

We conduct our empirical analyses using the DHW confidentialised public housing administrative data.⁸⁸ The sample design comprises all households who entered the wait list between 1 January 1999 and 30 November 2005. Because of the panel nature of the data, we are able to track the employment profile of individuals from the point of entry onto the wait list. Using a sample of working age individuals who have spent time on the wait list, Table 6.2 presents estimates derived from tracking their employment profile at three points in time – on acceptance onto the wait list, on entry into public housing and, finally, the most recent observation.⁸⁹ The table shows that the aggregate employment rate of persons is 14 per cent at entry onto the wait list, it increases to 16 per cent at entry into public housing, and then rises to 20 per cent at the most recent observation. There is only weak evidence here of a welfare lock. Employment rates improve more after transition into public housing than they do while on the wait list.

The table conducts the same comparisons for sub-groups of the sample defined by geography and key socioeconomic and demographic characteristics. There are inter-regional differentials in employment rates, with higher rates observed for tenants in country regions such as the Pilbara and Kimberley than for metropolitan regions. Persons who are on the priority list also have somewhat lower employment rates than those on the normal wait turn list.⁹⁰ Males are more likely to be employed than females, and non-disabled persons than disabled persons. We find higher employment rates among Aboriginal tenants than non-Aboriginal tenants.⁹¹ However, the employment trend as applicants make transitions from wait lists into public

⁸⁷ This could reflect affordability problems in private housing markets that have become more severe. Public housing is then an increasingly attractive option because income related rents are more affordable.

⁸⁸ The key characteristics of DHW public housing data are described in Chapter 3, Section 3.2.2.

⁸⁹ For tenants still in public housing at the end of the data timeframe, 'most recent' refers to 30 November 2005. For tenants who exited public housing before the end of the timeframe, 'most recent' refers to the exit date from public housing.

⁹⁰ Applicants considered to be particularly disadvantaged, such as the homeless and victims of domestic violence, are placed on priority lists.

⁹¹ Indigenous persons on Community Employment Development Programs are classified as employed.

housing tenancies remains the same across all regions and socio-demographic groups.

Table 6.2: Employment rate at entry onto the wait list, entry into public housing and most recent observation, by socio-demographic characteristics, working age tenants, per cent^a

	<i>Entry onto wait list</i>	<i>Entry into public housing</i>	<i>Most recent observation</i>	<i>Sample</i>
<i>All regions</i>	13.9	15.8	20.2	26,880
<i>Priority level during wait list period</i>				
Wait turn	15.5	18.3	22.6	16,569
Priority	15.8	15.7	21.4	2,717
Wait turn, then priority	10.0	10.4	14.7	7,594
<i>Gender</i>				
Male	16.6	19.8	25.1	10,288
Female	12.3	13.4	17.2	16,591
<i>Aboriginality</i>				
Non-Aboriginal	13.1	14.8	19.9	17,716
Aboriginal	15.5	17.8	20.9	9,164
<i>Disability status</i>				
Not disabled	14.7	16.7	21.4	24,097
Disabled	7.2	7.9	9.8	2,783
<i>Metropolitan regions</i>				
North Metro	8.8	10.5	15.2	6,508
South Metro	9.7	10.6	15.2	3,771
South East Metro	11.0	12.4	18.5	5,045
All metropolitan regions	9.7	11.2	16.3	15,324
<i>Country regions</i>				
Great Southern	19.5	20.3	22.2	893
South West	15.1	16.8	20.4	1,551
Goldfields	14.9	16.2	20.9	1,719
Midwest-Gascoyne	14.2	17.4	21.4	1,864
Pilbara	22.6	25.3	29.6	2,216
Kimberley	32.2	36.0	38.6	1,607
Wheatbelt	18.3	20.7	22.8	1,706
All country regions	19.5	21.9	25.4	11,556

Source: Authors' calculations from DHW public housing data 1999-2005

Note:

a. The sample consists of individuals who entered public housing during the data timeframe and who were of working age from entry onto the wait list until their most recent observation. For tenants still in public housing at the end of the timeframe, the most current observation is 30 November 2005. For tenants who left public housing before the end of the timeframe, the most current observation is the date of exit from public housing. Persons who did not spend any time on the wait list are excluded. For persons who have entered public housing more than once within the analysis period, their employment status in their most recent tenure is analysed.

Interpretation of Table 6.2 is obscured by changes in general labour market conditions that accompany the panel's transition from wait lists into public housing. During the period considered, labour market conditions were strengthening, and so improving employment profiles are to be expected regardless of housing circumstances.⁹² Table 6.3 addresses this by comparing the employment outcomes of working age tenants during year *t* with the contemporaneous employment outcomes of working age wait list applicants in the same year. The year *t* employment outcomes of applicants and tenants are both measured on 1 July. Table 6.3 reports contemporaneous outcomes of all working age tenants and applicants.

Table 6.3 demonstrates that the employment rate among wait list applicants is below that of those who have already entered a public housing tenancy. The average employment rate of tenants is 18 per cent as compared to a contemporaneous employment rate of 13 per cent for applicants. Hence, overall, tenants are 5 percentage points more likely to be employed than applicants, and this difference is statistically significant at the 1 per cent level. This comparison is evident in each of the years 1999 to 2005, with tenants' employment being more favourable than applicants' contemporaneous outcomes, regardless of the year. We find the same pattern by gender, disability status, Aboriginality and region.⁹³ These findings offer stronger evidence of welfare locks. However, the interpretation of this increase in employment as solely or even principally attributable to welfare locks can be questioned on the grounds that gains may in fact reflect the ontological security that public housing provides to tenants.

Table 6.3: Contemporaneous employment rates of applicants and tenants, by year^a

	1999	2000	2001	2002	2003	2004	2005	All
Employment rate (%)								
Applicants	15.3	14.9	13.9	12.6	12.0	12.0	12.2	12.9
Tenants	15.9*	18.9*	17.4*	16.1*	17.9*	18.4*	20.0*	18.2*
Sample								
Applicants	4,255	10,472	15,298	16,073	15,643	15,422	15,284	92,447
Tenants	578	2,368	4,420	6,464	8,230	9,720	10,686	42,466

Source: Authors' own calculations from DHW public housing data 1999 to 2005

Notes:

a. Excludes transfer applicants.

* Significantly different from applicants at 1 per cent level

We address this issue by dividing the sample into two sub-groups: wait turn applicants and priority applicants for public housing. Priority applicants are assessed as being in urgent need of HA because they are in extremely unsatisfactory housing circumstances (e.g. homeless), have complex needs (e.g. disabilities) or may be the victims of abuse (e.g. domestic violence). They are then likely to be in precarious housing circumstances where the offer of stable housing opportunities could have wider benefits that include improved employment outcomes. There is also an element of administrative discretion in who is housed first, and so those who may benefit most are first offered housing. Applicants accepted onto wait turn lists meet income eligibility and residence tests, and must wait until they reach the top of the queue in

⁹² The Western Australian unemployment rate in 1999 was 6.9 per cent, falling to 4.4 per cent in 2005 (ABS, 2007b).

⁹³ Details available from authors on request.

the region where they have lodged an application before an offer of housing will be made. Their housing circumstances do not warrant priority status. Wait turn applicants must wait considerably longer for offers of public housing. They typically spend slightly over one year on the wait list, while the typical wait for priority applicants is seven months. Wait turn applicants must therefore make considerably greater investments of time to gain offers of public housing, and the investment sacrificed on breaching income eligibility limits is then typically greater. We can expect welfare locks to be particularly apparent among wait turn applicants.⁹⁴ On the other hand, the shorter time that priority applicants wait, and their insecure circumstances, would suggest that the stability afforded by public housing is the main reason for any employment gains.

Table 6.4 shows that, regardless of priority status, tenants' employment outcomes are better than applicants' contemporaneous outcomes. The typical employment gain made by wait turn (priority) tenants following entry into public housing is 7 (6) percentage points. These gains are statistically significant at the 1 per cent level for tenants who entered from wait turn and priority lists. These findings seem to suggest that welfare locks and housing stability effects are both present and of similar magnitude. But we cannot rule out other differences between those still on wait lists and those who have been housed. These differences might be correlated with both wait list status and employment outcomes, and could therefore account for the patterns that we observe from the straightforward comparisons drawn in Tables 6.3 and 6.4. We explore this further in the following section.

Table 6.4: Employment rates of applicants and tenants, by priority level and year, per cent

<i>Employment rate (%)</i>	<i>1999</i>	<i>2000</i>	<i>2001</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>	<i>All</i>
<i>Wait turn</i>								
Applicants	15.6	15.3	14.3	12.9	12.4	12.3	12.6	13.3
Tenants	18.4*	20.1*	18.8*	17.1*	19.9*	20.7*	22.5*	20.1*
<i>Priority</i>								
Applicants	11.3	8.9	7.3	7.2	6.5	6.8	6.4	7.3
Tenants	4.0*	14.4*	12.7*	12.7*	12.2*	12.0*	13.2*	12.6*

Source: Authors' own calculations from DHW public housing data 1999-2005

Notes:

a. Excludes transfer applicants.

* Significantly different from applicants of same priority level at 1 per cent level

6.3 Welfare locks: model estimates

In this section we report the findings from a quasi-experimental approach. It models the employment outcomes of applicants for public housing where these are measured in each year from entry onto the wait list to the most recent observation. The model specification is known as a difference-in-difference model (Meyer, 1995) that makes employment outcomes a function of:

- Whether the applicant successfully entered public housing over the timeframe; this is known as the treatment variable;

⁹⁴ As they spend longer periods on wait lists, wait turn applicants are, all other things being equal, more likely to receive a job offer while on wait lists.

- Whether the observations belong to a time period before or after entry into public housing; this is the difference-in-difference variable;
- A list of controls that include age, sex, household type, size and composition, region of residence, ethnicity, disability characteristics and year of observation.

The treatment variable distinguishes those who entered public housing from those still on the wait list at the end of the timeframe. Its role is to pick up the net effect of unmeasured differences between tenants (the treatment group) and the comparison group of applicants still on the wait list. There are 22,628 tenants in the so-called treatment group and 38,016 applicants who remain on the wait list at the end of the timeframe (the comparison group).⁹⁵ The difference-in-difference variable detects if there is a significant change in employment outcomes for those making it into public housing as compared to those still waiting for a public housing opportunity. It is the key variable in the present context. Its estimated impact allows for observed differences in characteristics related to the chances of being employed, as captured by the list of controls.⁹⁶

Table 6.5: Welfare locks: difference-in-difference model estimates^a

Explanatory variables ^b	Marginal effects (percentage points)					
	All males (1)	All females (2)	Wait turn males (3)	Wait turn females (4)	Priority males (5)	Priority females (6)
Treatment group	-2.9*	-1.7*	-3.1*	-1.5*	3.3**	1.7
Difference-in-difference	11.1*	5.3*	11.5*	5.3*	3.6*	1.9*
No. of observations	51,567	81,829	46,491	71,058	5,076	10,771

Source: Authors' own calculations from DHW public housing data 1999-2005

Notes:

a. Excludes transfer cases, that is, tenants who enter public housing but subsequently apply for a transfer within public housing.

* Statistically significant at 1 per cent level; ** Statistically significant at 5 per cent level

The difference-in-difference specification is estimated as a logit model, and the model's coefficients are used to obtain marginal estimates that represent the change in probability of employment when a particular characteristic is present. The marginal effect estimates are presented in Table 6.5 for the key treatment group and difference-in-difference variables.⁹⁷ There are six columns, each one presenting estimates for different sub-groups. In the first two columns, our findings for all males and females are presented. Separate models of male and female labour market behaviour are common in the literature because such behaviour is typically found to differ between the sexes.

⁹⁵ These numbers have been estimated on a person basis. They differ from the numbers reported in Table 6.3 because the numbers in Table 6.3 are observations on a person-year basis. Hence, under the 'All' column in the table, there can be more than one observation for each person, depending on how many years we are able to observe the person in the data.

⁹⁶ The quasi-experimental approach assumes that if the treatment (entry into public housing) were not applied, the outcomes (in this case, employment) would be the same for treatment and comparison groups. This assumption can be scrutinised by testing for statistically significant differences in the socioeconomic and demographic characteristics of treatment and comparison groups. It turns out that among wait turn applicants there are few statistically significant differences. See NRV1 Research Paper 9, Section 6, for details (Dockery et al., 2007b).

⁹⁷ Estimates for the controls have been omitted, but can be found in NRV1 Research Paper 9, Tables 7.6, 7.8 and 7.10 (Dockery et al., 2007b). Technical details are also presented in this Research Paper.

Both males and females in the treatment group have small but noticeably inferior unmeasured characteristics that are of similar magnitude. But the difference-in-difference variable has a much larger impact among males; their transition into public housing is the cause of an 11 percentage point increase in employment participation, as compared to a smaller but nevertheless important employment gain of 5 percentage points for all females.

The remaining columns are of importance from a policy perspective because they seek to unbundle this employment gain into welfare lock effects and housing stability effects. Columns 3 and 4 estimate the model for males and females on wait turn lists, where welfare locks are believed to be the primary source of employment gain. Columns 5 and 6 use a sample of male and female priority list applicants only, where welfare locks are less likely, but housing stability is believed to be a more important source of gain. These estimates offer clearer implications about the source of employment gain than do the straightforward comparisons in Section 6.2. Once again, the employment gain is larger for males than females, regardless of priority status. But more importantly, the employment gains are large for wait turn applicants at 12 (5) percentage points for males (females), yet priority applicants make much smaller employment gains of 4 (2) percentage points for males (females).⁹⁸ The difference for males is striking, and the improvement in employment outcomes for male wait turn applicants is large; since it is attributed to welfare locks, there are important policy implications of this finding that we take up in Chapter 9.

6.4 Income related rents, incentive effects and employment outcomes: a natural experiment

Welfare locks and housing stability impacts on employment are detectable as wait list applicants make transitions into public housing. Once in public housing, income related rents can negatively affect work incentives by increasing EMTRs and replacement rates. In Chapter 4 (see Section 4.2) we offer evidence that the financial rewards to extra work effort or transitions into employment are lower for public housing tenants than for other ISP recipients. Our findings indicate that income related rents make a modest contribution to the erosion of these financial rewards. The lift in employment rates following transitions into public housing could be even larger if the work disincentives caused by income related rents were eliminated.

In this section we attempt to isolate this incentive effect, using a natural experiment approach that is designed to address a serious methodological problem. As explained in Chapter 3 (see Section 3.3), those tenants who for one reason or another become unemployed or reduce work effort will typically receive higher amounts of HA. When the reasons for change in employment outcomes are causally unrelated to HA, it would be wrong to conclude that the consequent increase in HA has caused the inferior employment outcome. The correlation between inferior employment outcome and HA status is spurious.

The challenge for researchers is to isolate variation in HA that is independent of factors that impact tenant employment outcomes. In the present context, public housing tenants' HA is the difference between rebated rents and the market rent. We exploit a potential source of independent variation in HA among parents with two children. DHW in Western Australia will assign 2-bedroom properties if the parents have two children of the same gender, and 3-bedroom properties if children are of

⁹⁸ Note that the treatment variable has opposite signs for samples of wait turn and priority applicants. The latter sample produces a positive marginal effect estimate, suggesting that unmeasured characteristics such as educational qualifications boost the employment prospects of the treatment group.

mixed gender.⁹⁹ The market rents of 3-bedroom properties are typically higher. Since there is no reason to expect differences in the characteristics of parents of same and mixed gender children, the parents of mixed gender children will receive higher levels of HA independent of their propensity to be employed. Since the chances of parenting two children of mixed or same gender is an act of nature, research designs of this kind are labelled natural experiments.

The sample frame is then parents of two children who became public housing tenants in Western Australia between 1999 and 2005. To allow for lagged effects on employment decisions, we measure employment outcomes two years after entry into public housing. A regression model has been estimated for this sample. The key variable is HA, defined as the difference between market rent and the rebated rent paid by the tenant. Since the available stock varies by region and size, there is reason to suspect that the chances of being assigned a 2-bedroom or 3-bedroom property will differ across regions. This will undermine the natural experiment study design. We address this by including regional controls in the model.

Our findings suggest that public HA has no impact on the labour market behaviour of female parents, but there is some evidence of a negative impact for male parents. Model estimates indicate that a \$1 per week increase in public HA will reduce the probability of male employment by 0.7 percentage points. This is a sizeable negative impact but must be treated with caution as the sample size (358) is small compared to that used to detect female employment impacts (1,120). There is also an important reservation. The capacity of DHW to apply its occupancy rules is compromised by an apparent shortage of 2-bedroom properties. This means that most parents of two children are assigned 3-bedroom properties, and this limits the variation in HA that is linked to the gender mix of children. These estimates cannot be treated as reliable, given these reservations. We believe that on balance our evidence here and in Chapter 5 indicates that HA provided via CRA or income related rents in public housing has at most small negative impacts on employment outcomes.

6.5 Welfare dependence: an empirical analysis of tenant exits from public housing

A concern frequently raised in social policy discourse is welfare dependence. The idea is that a prolonged presence on government income support programs stifles initiative and erodes self-confidence. Furthermore, the prolonged economic inactivity that frequently accompanies eligibility for ISPs means that skills and experience become obsolete, as they are not being updated via employment or training. The consequence is that a return to employment and exit from welfare assistance becomes less likely, the longer the spell on income support. These ideas have been influential in shaping the 'welfare to work' reform agenda and have been empirically examined before,¹⁰⁰ but spells in public housing have been neglected by researchers. This is surprising in view of the rising rates of joblessness and eligibility for ISPs among Australian public housing tenants. In 2002 we estimate that 77 per cent of working age public housing tenants were eligible for ISPs, and more than two-thirds of working age households in public housing were jobless.

The findings we report here are novel; they relate to the exit rates of tenants conditional on the duration of their spell (tenancy) in public housing. Our objective is

⁹⁹ Occupancy rules are somewhat complicated by criteria that take into account the age of children. These rules are applied in so far as the available housing stock allows, a point we return to at the end of this section.

¹⁰⁰ See Barrett (2002) and Richardson (2002) for examples in Australia. Blank (2002) reviews the evidence on US welfare reform.

scrutiny of the welfare dependence hypothesis: are those tenants who have been accepted into public housing, say, only a few weeks or months ago more or less likely to leave as compared to tenants who have been resident for, say, a number of years? But there are issues here that make the empirical examination of spells in public housing more nuanced than spells on income support programs such as Newstart. Lengthy spells on Newstart are generally regarded as an obvious source of concern. Lengthy spells in public housing are not such an obvious source of concern. With de-institutionalisation there are an increasing number of tenants with complex needs arising from physical and mental disabilities or alcohol and drug abuse, and they are arguably unable to fend for themselves in private housing markets. Their long-term presence in public housing is not an obvious source of concern and might be looked on positively in the absence of alternative institutional arrangements.

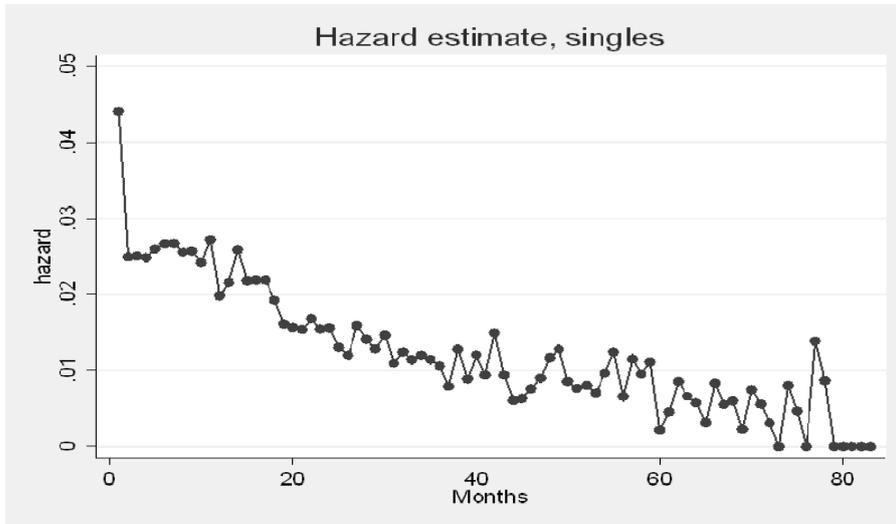
The more obvious focus of concern from a public policy perspective is healthy working age tenants who are not parenting pre-school-age children. Their prolonged presence in public housing will mean that resource-constrained SHAs are less able to house wait list applicants, and in particular those in more urgent need of HA. Furthermore, the security of tenure associated with public housing is a double-edged sword; it offers housing stability that can be the source of wider benefits (e.g. better health and educational achievements for children), but it can stifle initiative, as tenants are sheltered from the risks and challenges confronting those with a responsibility for their own housing arrangements in private markets.

Concerns about this second group are irrelevant if most of these tenants have short spells in public housing. However, we know very little about the pattern of spells in public housing. The graphs in Figure 6.1 use DHW administrative records to profile the pattern of exits as a function of the number of months since tenants entered public housing. The vertical axis measures the fraction who exit public housing; for example, consider the height of the curve at, say, 30 months. It identifies tenants exiting public housing after a spell of 30 months, expressed as a fraction of all tenants who have been resident for 30 months. This is the conditional probability of exit (or hazard rate); if the hazard rate falls as spells lengthen, this may be indicative of duration dependence. As described above, duration dependence may be considered undesirable as individuals (or households) exhibit an increasing dependence on the program over time and are less likely to achieve economic independence.

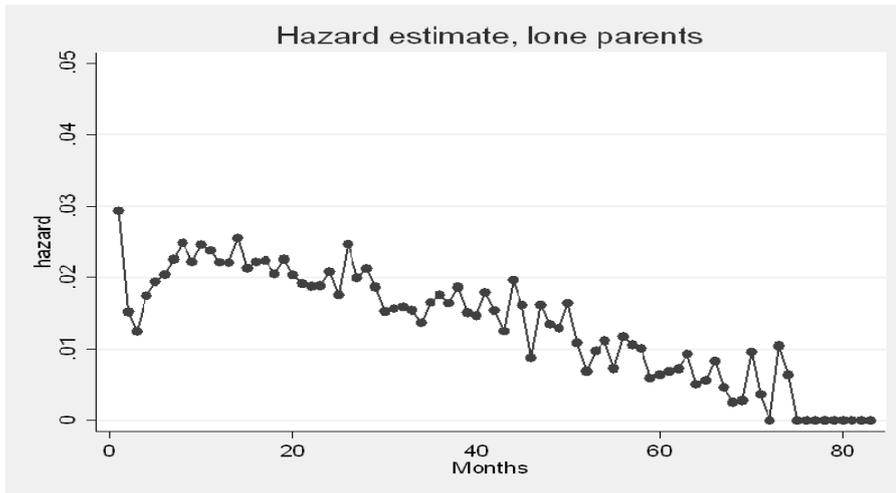
The relationships between conditional probabilities and length of spell are referred to as hazard functions; in Figure 6.1 they are defined over spells in public housing measured in months. The hazard functions are presented separately for singles, sole parents and couples. The patterns exhibited by the household types are similar. Following a spike in the hazard rate in the first month, the hazard increases for approximately the next eight months. For spells that are particularly long, in excess of 60 months, the hazard rate tends to jump around significantly. Moreover, in a number of cases it is equal to zero. This pattern reflects the limited number of lengthy spells, and the small number of observations ending at these durations. The decline in the hazard rate over the period analysed is suggestive of the presence of duration dependence. That is, a long spell in public housing itself leads to a lower probability of leaving this form of tenure. Such a pattern may also be consistent with unobserved heterogeneity among the set of households that enter public housing. It is possible, for example, that those who remain in public housing for a long period and exhibit a low probability of exit have complex needs and may not be reasonably expected to secure suitable housing in private markets.

Figure 6.1: Probability of public housing exits

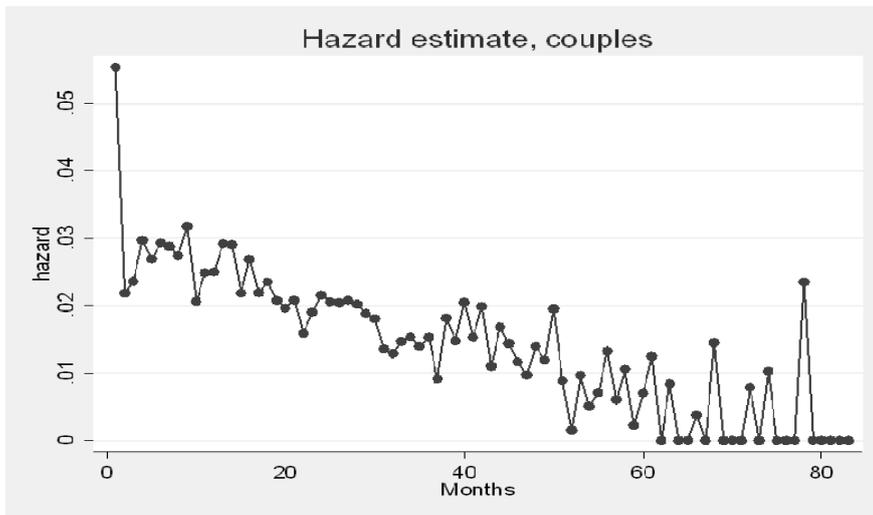
(a) All singles



(b) All sole parents



(c) All couples



Source: Authors' own calculations from DHW public housing data 1999-2005

The modelling results reported in Table 6.6 address this issue. The findings come from a multivariate modelling exercise that estimates the strength and size of the relationship between conditional probabilities of exit and tenant characteristics. The panel regression analysis is based on a proportional hazard model that estimates the proportional effect of a characteristic (priority status, for example) on the conditional probability of exit from public housing. The sign of the estimates reported in Table 6.6 show the direction in which the conditional probability changes.

The first key variables of interest from a policy perspective are employment status and amount of earned income. For all household types, we find that being employed (as indicated by receipt of earnings) prolongs spells in public housing. But this surprising result is tempered by the positive effect that size of earnings have on the conditional probability of exit. These results are telling us that those employed tenants with low earnings do tend to stay in public housing for relatively long spells. But as tenants progress to higher levels of pay they are more likely to depart public housing, and expected spells in public housing become shorter. These results are unsurprising. As earnings increase, individuals can afford a greater array of housing opportunities in private markets. Moreover, the HA provided by rebated rents falls as the rent paid to the SHA is increased up to the market rent cap. Tenants in employment, with earnings sufficient to participate in private housing markets, find better opportunities and leave public housing.

The other key policy variable of interest is the market rent. This variable captures differences in the amount of HA between public housing tenants. All other things being equal, a higher market rent equates to a higher level of HA. It unsurprisingly has a large negative effect on the conditional probability of exit; tenants of properties with higher market rents receive higher transfers (of HA) and prolong their spells in public housing. Tenants of properties with low market rents are more likely residing in poorer quality housing and neighbourhoods, and do not 'hang around' unless they have no alternative.

Table 6.6: Model of probability of exits from public housing

<i>Explanatory variables</i>	<i>Singles</i>	<i>Sole parents</i>	<i>Couples</i>
Male	0.009	0.225*	0.370*
Age	-0.054*	-0.016	0.029*
Age squared	0.000*	0	-0.001*
No. kids 0-4	-	-0.046*	-0.053**
No. kids 5-9	-	-0.045*	-0.078*
No. kids 10-14	-	-0.052*	-0.050***
Presence disability	0.090**	0.132***	-0.029
Indigenous	0.179*	-0.114*	0.058
Priority case	-0.334*	-0.092*	-0.122*
Receipt govt. pay (person 1)	0.620*	0.099***	0.342*
Receipt earnings (person 1)	-0.664*	-0.164*	-0.109**
Other payment (person 1)	-0.293*	-0.170*	0.181*
Amt govt. pay (person 1, \$'00s)	-0.133*	0.005*	0.006*
Amt earnings (person 1, \$'00s)	0.016*	0.021*	0.012*
Amt. other pay. (pers. 1, \$'00s)	-0.032***	0.007*	-0.007
North Metro	-0.355*	-0.459*	-0.325*
South Metro	-0.207*	-0.638*	-0.464*
South East Metro	-0.388*	-0.596*	-0.391*
Great Southern	-0.126	-0.533*	-0.514*
South West	-0.320*	-0.577*	-0.374*
Goldfields	0.136***	0.153**	0.008
Midwest-Gascoyne	-0.220*	-0.210*	-0.117
Pilbara	-0.031	0.065	-0.007
Kimberley	0.051	0.205**	0.245**
Market rent (\$00s per month)	-0.135*	-0.171*	-0.105*
Pseudo log likelihood	-24,892.758	-27,066.697	-13,041.020

Source: Authors' own calculations from DHW public housing data 1999-2005

Note: * Statistically significant at 1 per cent level; ** Statistically significant at 5 per cent level; *** Statistically significant at 10 per cent level

There are other variables that yield helpful insights because they indicate whether tenants with complex needs are more likely to stay in public housing in the longer run. Of importance here are the disability and priority status variables. There are mixed findings. The presence of a disability is associated with relatively short spells for singles and sole parents. On the other hand, those on priority wait lists typically end up staying for relatively lengthy spells. This is particularly noticeable among singles with priority status where the conditional probability of exit is approximately one-third lower than that of singles on the wait turn list.

The results from this research exercise are once again subject to qualifications. This is the first examination of this issue in Australia to use sophisticated techniques of empirical analysis. There is therefore more than the usual degree of uncertainty about findings that cannot be corroborated or compared with other studies that have used alternative techniques. They are nevertheless an important contribution to research

into public housing arrangements that deserve attention and further development in future research. This suggestion is discussed again in Chapter 9.

6.6 Summary and concluding comments

This chapter has used the administrative records of a SHA to explore welfare locks, the work incentive effects of income related rents and welfare dependence in relation to public housing. We find that welfare locks while prospective tenants are on wait turn lists can be large, and this is particularly evident among males where employment rates are impacted by as much as 11 percentage points. On the other hand, we cannot detect generally significant effects from rebated rents on employment status. Finally, we find that spells in public housing are typically longer for priority cases and those receiving high levels of HA, but shorter for employed tenants with relatively high earnings. The analysis indicates that over time the probability of exiting public housing tends to fall, reflecting the possible presence of both duration dependence among tenants and unobserved heterogeneity among public housing tenants. In fact, after approximately four years, the likelihood of exiting public housing is very low, in the order of 1 per cent in a given month.

The findings reported in this chapter play an important role in shaping the policy proposals that we put forward in Chapter 9. But they also have significance in helping us to explain our analysis of long-run trends in the employment outcomes of public housing tenants (see Chapter 2). This analysis revealed that such outcomes became increasingly inferior as compared to those predicted from models that included the socioeconomic and demographic variables typically significant when modelling employment. It seems that stronger work disincentives arising from rent formulae are not responsible. A more likely explanation is tighter welfare locks because income eligibility rules used to admit applicants onto wait lists are more stringent, as SHAs have sought to target public housing on those Australians most in need of HA. The deteriorating affordability of housing in private markets has aggravated the situation by encouraging low-income households to invest more time on wait turn lists, given the relatively affordable rents in public housing. Finally, declining stocks of public housing mean that applicants have to wait longer before they reach the top of the queue. The policy perspective that emerges is both intriguing and worrying. The evidence suggests that SHAs' understandable attempts to marshal their resources to meet those most in need could be counterproductive because they risk entrenching poverty and disadvantage.

7 'WELFARE TO WORK' REFORMS AND HOUSING ASSISTANCE

7.1 Introduction

A key plank of the Commonwealth government's 'welfare to work' reforms is the introduction of mutual obligation where welfare recipients are obliged to 'give something back' in return for income support. Following a series of pilot schemes, and the 1997 Work for the Dole legislation, MOAs began in July 1998. Australians aged 18-34, unemployed for six months or longer and receiving Newstart or Youth Allowance must participate in a MOA program to remain eligible for these allowances. This emphasis on conditionality and obligation can also be found in policy changes introduced in the US and UK. In the US, for example, the 1996 Personal Responsibility and Work Opportunity Reconciliation Act requires recipients to work in order to receive welfare payments. These US reforms also embrace lifetime limits on receipt of income support (Blank, 2002).

A series of studies conducted by US policy analysts and academics have explored the outcomes of 'welfare to work' programs, and the HA status of those enrolled in them.¹⁰¹ Most of these studies show that such programs are more likely to result in positive outcomes if those enrolled are receiving HA.¹⁰² Three reasons have been advanced to explain these findings:

- HA recipients have more secure and stable housing arrangements that make the search for employment opportunities more productive. For example, an address for correspondence and security of tenure in public housing can aid transitions into employment by making it easier to take advantage of programs designed to help prepare for and hold a job (Van Ryzin, Kaestner and Main, 2003);
- HA can help the unemployed to relocate closer to employment opportunities where the housing cost burden is more onerous. Furthermore, it can improve the ability of low-income workers to keep jobs by freeing up resources that can be used to meet work-related expenses such as childcare and transportation (Verma and Hendra, 2003);
- If HA recipients are more prone to poverty and unemployment traps that deter labour market participation, 'welfare to work' reforms that introduce work obligations can have a potentially larger impact upon this group because they over-ride blunt work incentives (Verma et al., 2003).

The Australian 'welfare to work' reforms share some of the same features as their counterparts in the US, and housing markets and institutions in the two countries have a lot in common.¹⁰³ The US studies and their findings provide one motivation for the research reported in this chapter. A second motivation is exploring the implications of Australian reforms for the relationship between HA and labour supply. Our evidence confirms that HA recipients' poverty traps and unemployment traps are generally

¹⁰¹ See Corcoran and Heflin (2003), Culhane et al. (2003), Friedman, Meschede and Hayes (2003), Lubell, Shroder and Steffen (2003), Miller et al. (1997), Miller (1998), Nagle (2003), Riccio and Orenstein (2001), Van Ryzin, Kaestner and Main (2003), Verma and Hendra (2003) and Verma et al. (2003).

¹⁰² See NRV1 Research Paper 8 (Feeny et al., 2007) for a review of these studies.

¹⁰³ In both countries, homeownership is the dominant tenure. Public housing is a rationed and residual tenure providing housing for those in most need, and at rents that are (as in Australia) set at a fixed percentage of assessable income. Private rental housing is a similar share of the housing stock, but it is in this tenure that differences in HA arrangements are most pronounced. The US housing voucher program is rationed, whereas CRA is an entitlement. This difference is potentially important, as we will see later in the chapter.

'deeper' than those experienced by other ISP recipients (see Chapter 4). The third of the above reasons implies that Australian reforms should generate a relatively large lift in employment participation among clients of HA programs. Our research approach takes a sample of long-term unemployed who have reported participation in MOAs, and asks whether subsequent employment profiles are superior among recipients of HA. The key research question is whether Australian HA arrangements replicate the positive outcomes found in many of the US studies.

The remainder of the chapter is organised as follows. Section 7.2 briefly explains MOAs and goes on to explain how the sample has been framed using the HILDA data set. It presents some descriptive statistics that profile MOA participants by HA status, and compares changes in rates of employment participation over post-MOA timeframes. Section 7.3 reports findings from multivariate analyses of employment outcomes, and a final section interprets findings and offers concluding comments.

7.2 Mutual obligation activities and research approach

When the MOA program was introduced in July 1998, the Commonwealth government required all jobseekers aged 18 to 24 who had received Newstart or Youth Allowance for a continuous period of six months or more to participate in a MOA in addition to searching for employment. In July 1999 the program was expanded to include job seekers in the age category of 25 to 34 who were in receipt of Newstart for a period of 12 months or more. In 2006 reforms to DSP and Parenting Payment that tighten eligibility criteria would have increased the numbers of Newstart recipients and therefore increase the number of ISP recipients required to participate in MOAs.¹⁰⁴

The range of eligible activities can be grouped under three headings. Employment and community participation are activities such as Work for the Dole, community and voluntary work or any form of paid employment. Eligible activities under the training heading include English language training for migrants, part-time study and approved literacy and numeracy schooling. Finally, assistance programs help prepare unemployed persons for work opportunities by guiding job search, helping with the preparation of CVs and so on. Choice of an eligible MOA is initiated by a mandatory interview with a case officer who will explain the range of activities. The participant enrolls by indicating their preference, and the case officer will assist, where appropriate, in planning and organising the activity.

7.2.1 Sample frame

A sample of MOA participants is framed from the HILDA data set. The survey instrument asks whether the interviewee has participated in a MOA.¹⁰⁵ Of the 481 participants in MOAs, 289 (61 per cent) enrolled in one of the first four waves, the other 192 (39 per cent) participating in a year before the first year they were interviewed.¹⁰⁶ HA recipients make up 44 per cent of our sample of MOA participants,

¹⁰⁴ Post-July 2006 DSP applicants assessed as being capable of at least 15 hours work receive Newstart Allowance instead of DSP. Post-July 2006 Parenting Payment applicants are diverted onto Newstart after their youngest child turns 8 (6) for partnered (single) parents.

¹⁰⁵ The survey respondents are asked whether they have ever been required by Centrelink or a Job Network provider to participate in the following programs: part-time paid work, Work for the Dole, Community Development Employment projects, community work, Green Corps, relocation, voluntary unpaid work, part-time study, Defence Force Reserve, New Apprenticeship Access Program, approved literacy/numeracy training, advanced English for migrants, job search training, job placement employment and training, intensive assistance and the Job Pathway program.

¹⁰⁶ Some survey respondents were not interviewed in Wave 1, that is, they were interviewed subsequent to Wave 1. Of the 192 persons participating in MOAs in a year before their first year of interview, only four were not interviewed in Wave 1.

CRA being the most common form of HA received.¹⁰⁷ Our empirical approach compares the post-MOA employment profiles of those receiving HA with the employment profiles of those never eligible for HA.

Table 7.1 lists the broad categories of MOA undertaken, and the sample numbers for each category, bearing in mind that any one participant may have enrolled in more than one program. The assistance category is the largest program regardless of HA status. There are different patterns in the other categories, with HA recipients much more likely than other Newstart and Youth Allowance recipients to enrol in the employment and community participation category.

Table 7.1: Enrolment in MOA programs by HA status

<i>MOA programs</i>	<i>HA</i>	<i>No HA</i>
Employment and community participation	44.5	30.7*
Training	25.6	15.6*
Assistance	79.6	80.0

Source: Authors' own calculations from HILDA Waves 1-4

Note: * Statistically significantly different from HA participants at 1 per cent level

7.2.2 Descriptive statistics

If we were able to conduct a randomised experiment, our pool of long-term unemployed MOA participants would be randomly assigned between HA programs (treatment group) and a comparison group that receive no HA. A randomised study design can ensure that, if HA were not made available to the treatment group, the expected employment profile of these groups would be the same. Furthermore, random assignment will mean that HA/treatment groups and the comparison group share the same socioeconomic and demographic profile.

Given our quasi-experimental study design, the comparisons in Table 7.2 are a very important gauge of whether the design comes close to mimicking that of a randomised experiment. The table compares the HA/treatment and comparison groups across a wide range of demographic and socioeconomic variables, as measured at the time of enrolment in MOAs.¹⁰⁸ Concerns about the study design are flagged if there are statistically significant differences in the profile variables. In fact, most variable measures reveal insignificant differences, but there are concerns about gender, sole parent status and labour market history, with women and sole parents more likely to be represented among HA recipients, and HA recipients spending more time out of the labour force since leaving full-time education. The education, disability, residential location and other demographics (age, household type, country of birth, children) are largely indistinguishable. It would seem that if there is a serious flaw in the study design, it is that women and sole parents who have spent relatively large amounts of time out of the labour force are over-represented in the HA/treatment group.

¹⁰⁷ Among HA recipients, 138 (65 per cent) received CRA only, 53 (25 per cent) received public HA only, and 20 (10 per cent) received both CRA and public HA during the study timeframe.

¹⁰⁸ For those enrolled in MOA programs before Wave 1, the variables are measured using the wave when they are first interviewed.

Table 7.2: Socio-demographic characteristics variables by HA status, per cent by column

<i>Characteristics</i>		<i>HA</i>	<i>No HA</i>	<i>Total</i>
Gender	Male	50.7	65.9*	59.3
	Female	49.3	34.1*	40.7
Age group	15-19	17.1	16.3	16.6
	20-34	39.8	31.1**	34.9
	35 or over	43.1	52.6**	48.4
Country of birth	Australian non-Aboriginal	70.1	74.1	72.3
	Australian Aboriginal	6.6	1.9**	4.0
	Main English-speaking ^a	8.5	9.6	9.1
	Other	14.7	14.4	14.6
Income unit type	Couple with dependent children	11.4	24.1*	18.5
	Couple with no dependent children	18.0	19.6	18.9
	Sole parent	10.0	2.6*	5.8
	Single	60.7	53.7	56.8
Number of dependent children	Zero	78.7	73.3	75.7
	One	10.0	8.1	8.9
	Two	6.2	11.5**	9.1
	Three	3.8	4.1	4.0
	Four or more	1.4	3.0	2.3
Region	Major city	55.0	56.7	55.9
	Inner regional	25.6	25.2	25.4
	Outer regional, remote or very remote	19.4	18.1	18.7
Disability/long-term health condition		27.5	24.4	25.8
Highest qualification (% by column)	Bachelor degree or higher	5.2	13.0*	9.6
	Other post-school qualifications	37.0	36.7	36.8
	Year 12 or under	57.8	50.4	53.6
Main activity while NILF (% of persons ever NILF)	Home duties/childcare	41.2	24.4	33.7
	Study (school, TAFE or university)	31.4	39.0	34.8
	Own illness or injury	7.8	7.3	7.6
	Travelling/holiday/leisure	5.9	19.5	12.0
Labour market history since left full-time education	Years in paid work	10.1	14.6*	12.7
	Years unemployed	2.8	2.3	2.5
	Years NILF	3.6	2.2*	2.9
Sample		211	270	481

Source: Authors' own calculations from HILDA Waves 1-4

Notes:

a. Main English-speaking countries are New Zealand, UK, Ireland, Canada, US and South Africa.

* Statistically significantly different from HA participants at 1 per cent level; ** Statistically significantly different from HA participants at 5 per cent level

There is a second study design issue addressed in Table 7.3. We are conducting a comparison of employment profiles over time intervals subsequent to enrolment in MOAs. Our concern is not just with differences in profiles at one point in time, as in

Table 7.2. The research approach is more robust if the composition of treatment and comparison groups do not diverge over the time interval studied (Meyer, 1995).¹⁰⁹ Table 7.3 computes the difference in key demographic and socioeconomic variables over the time period separating the year (or wave) of enrolment in MOAs (the first observation) to the most recent observation, which is Wave 4 in around one-third of cases (37 per cent).¹¹⁰ It turns out that the incidence of parenting children aged 0 to 4 years increases among the HA/treatment group, but declines among the comparison group, and this difference is statistically significant. In both groups, the incidence of disability rises, but the increase in the rate is the same. Changes in residential location and educational qualifications are also the same across HA/treatment and comparison groups. The increasing incidence of pre-school-age children among the HA/treatment group will depress employment outcomes for reasons independent of HA status, and is a reason for caution when interpreting findings on post-MOA employment profiles.

¹⁰⁹ So, for example, if the HA/treatment group has higher incidence of workplace injuries than the comparison group, differences in employment rates will emerge even if the groups were identical in all respects at the time of enrolment in MOAs. The difference in employment rates eventuates for reasons unrelated to HA status, but would be falsely attributed to HA status.

¹¹⁰ Participants enrolling in MOA before Wave 1 are treated as if they had enrolled in Wave 1 for the purposes of calculating before observations. Note that the time interval for HA recipients over which the change in variables is measured is 2.3 years, somewhat longer than the 2.1 year interval for the comparison group. This difference is statistically significant at the 5 per cent level.

Table 7.3: Changes in the composition of HA/treatment and comparisons groups^a

		<i>HA/Treatment group</i>		<i>Comparison group</i>		<i>Test of difference-in-differences (sig.) (5)</i>
		<i>First observation (1)</i>	<i>Most recent observation (2)</i>	<i>First observation (3)</i>	<i>Most recent observation (4)</i>	
Partnered (%)		29.6	35.8	44.6	46.0	n.s.
Number of children	Aged 0-4	0.11	0.17	0.15	0.14	**
	Aged 5-9	0.09	0.12	0.14	0.15	n.s.
	Aged 10-14	0.12	0.11	0.12	0.13	n.s.
Disabled (%)		29.1	36.3	24.9	31.5	n.s.
Region (%)	Major cities	24.6	24.0	28.6	28.6	n.s.
	Inner regional	17.3	17.3	18.8	15.5	n.s.
	Outer, remote or very remote region	1.7	3.9	0.5	1.4	n.s.
Highest qualification (%)	Bachelor degree or higher	5.6	5.6	9.4	9.9	n.s.
	Other post-school qualification	35.8	31.8	38.0	35.2	n.s.
	Year 12 or below	58.7	62.6	52.6	54.9	n.s.
Labour force experience since left full-time education	Years in paid work	9.8	10.8	14.8	16.0	n.s.
	Years unemployed	2.9	3.7	2.5	2.9	*
	Years NILF	3.6	4.1	2.2	2.6	**
Sample		211	270			

Source: Authors' own calculations from HILDA Waves 1 to 4

Notes:

a. Not all variables change over the time interval. These fixed variables are omitted.

* Test statistic is significant at 1 per cent level; ** Test statistic is significant at 5 per cent level; n.s. Test statistic not significant at the 1 or 5 per cent levels

Table 7.4 presents key findings on the change in labour market performance subsequent to enrolment in MOAs. The first important point to note is that, in the year of enrolment, the HA/treatment group compare unfavourably on both outcome measures: employment rates are lower, and employed weekly wages are lower. The weekly wage comparison reflects lower incidence of full-time jobs. This is to be expected on at least two counts; firstly, we know that the HA/treatment group are more prone to poverty and unemployment traps and thus work disincentive effects could be embedded in these comparisons; secondly, there are more women (who typically have lower participation and wage rates) among the HA/treatment group.

The first of these explanations suggests that MOAs should have more of an impact among the HA/treatment group, as they over-ride work disincentives. In fact, employment rates increase for both groups, from 27 per cent to 49 per cent for the HA/treatment group and from 45 per cent to 70 per cent for the comparison group, but these positive gains are not significantly different (in a statistical sense). With respect to average weekly wage gains, the comparison group make gains of \$120, but the treatment group make larger gains of \$139. The latter make gains from a lower base, but the superior wage gains are not statistically significant.

Table 7.4: Differences in labour market outcomes post enrolment in MOAs by HA status

	<i>HA/Treatment group</i>		<i>Comparison group</i>		<i>Test of difference-in-differences (sig.) (5)</i>
	<i>First observation (1)</i>	<i>Most recent observation (2)</i>	<i>First observation (3)</i>	<i>Most recent observation (4)</i>	
Employment rate (%)	27.4	48.6	44.6	70.0	n.s.
Current weekly wage ^a	314.5	453.8	458.4	578.8	n.s.
Sample	211	270			

Source: Authors' own calculations from HILDA Waves 1-4

Notes:

a. Current weekly wage is calculated only for persons who were employed during both the first and last observations.

* Test statistic is significant at 1 per cent level; ** Test statistic is significant at 5 per cent level; n.s. Test statistic not significant at the 1 per cent or 5 per cent levels

It would seem on the basis of these findings that when HA recipients enrol in MOAs, their employment and weekly wage profiles are inferior to those of other Newstart and Youth Allowance recipients that enrol. But despite these inferior starting points, that might reflect particularly blunt work incentives among HA recipients, they do not achieve the superior employment gains detected in US studies. The analysis in Table 7.4 is vulnerable to criticism that the time interval over which change in labour market performance is measured differs between the two groups; at 2.3 years the HA/treatment group time interval is longer than the 2.1 years for comparison groups. This introduces ambiguity into the interpretation of these findings. The employment gains made by the HA/treatment group may be the same, but they have been sustained over a marginally longer time interval. On the other hand, the wage gains made by the group could be higher simply because they have been measured over a typically longer time interval. Furthermore, we detected in Table 7.3 potentially important time-varying heterogeneity with respect to pre-school-age children that could mask better than expected employment outcomes among the HA/treatment group. In the next section we propose and implement a more rigorous multivariate strategy.

7.3 Modelling estimates

Our approach is based on the estimation of a panel model. The observations forming the sample for estimation purposes are employment outcomes in each wave of HILDA subsequent to enrolment in MOA.¹¹¹ The panel model has the following specification:

$$E_{it} = f\left(\alpha + \beta T_i + \sum_{j=2}^4 \gamma_j WAVE_{ij} + \theta(T_i \cdot z_{it}) + X_{it}\phi + u_{it}\right) \quad (7.1)$$

Where E_{it} is the employment outcome (1=employed, zero otherwise) for the sampled individual i in wave $t=1,2,3,4$. T_i is the 'treatment variable' and equals 1 if the MOA participant has received HA in one or more waves, zero otherwise. $WAVE_{ij}$ equals 1 if the observation for a MOA participant belongs to wave $j=t=2,3,4$, zero otherwise; z_{it} is equal to 1 if the MOA participant received HA in wave t , zero otherwise. In some estimations this variable is lagged to address endogeneity concerns. X_{it} is a vector of control variables that includes the broad categories of MOAs received.

The treatment variable will detect permanent differences between HA/treatment and comparison groups. If, on enrolment in MOAs, the comparison group has a distribution of expected employment outcomes that is close to those of the treatment group, the coefficient β will be insignificantly different from zero. The $WAVE_{ij}$ dummy variables capture fixed effects specific to wave j but common to all MOA participants. The interaction term formed by the product $T_i z_{it}$ identifies observations for individuals in the treatment group that are contemporaneous with receipt of HA. There are 211 individuals in our treatment group and, of the 622 post-MOA observations, 419 or 67 per cent are synchronised with receipt of HA. The panel model exploits transitions on and off HA programs to identify whether the employment profiles of HA recipients differ from those of their fellow MOA participants.

Marginal effect estimates for the key variables are presented in Table 7.5.¹¹² These represent the change in the probability of employment when a particular characteristic (or event) is present (or occurs). The final column reports findings from a specification that includes the lagged interaction term.

Table 7.5: Panel model estimates

	<i>Marginal effect ($T_i z_{it}$)</i> %	<i>Marginal effect ($T_i z_{it-1}$)</i> %
Treatment Variable (T_i)	-13.7*	-13.1*
Interaction Term ($T_i z_{it}$ or $T_i z_{it-1}$)	-6.4	-6.7
Wave 2	14.2*	NR
Wave 3	25.0*	11.4*
Wave 4	34.2*	21.3*
MOA program: Training	-9.9*	-8.8**
MOA program: Assistance	4.0	5.7
Number of observations	1,344	1,156

Source: Authors' own calculations from HILDA Waves 1 to 4

Note: * Statistically significant at 1 per cent level; ** Statistically significant at 5 per cent level

¹¹¹ As a panel data set with enrolment in MOAs at different points in time, the number of observations varies across individuals in the sample frame. There are 481 individuals in the sample; 179 (37.2 per cent) have four observations, 113 (23.5 per cent) have three observations, 100 (20.8 per cent) have two observations, and 89 (18.5 per cent) have one observation.

¹¹² NRV1 Research Paper 8 also reports findings from a wage model (Feeny et al., 2007). Detailed results including marginal effect estimates for control variables are available in Research Paper 8.

A key finding is the statistically significant and large negative marginal effect that belonging to the HA/treatment group has on employment probability. If an MOA participant receives HA at some point in time, they are 13 percentage points less likely to be observed in employment. This estimate confirms that there are permanent differences that distinguish the long-term unemployed who are admitted onto HA programs. Most importantly, the HA/treatment group have inferior employment prospects regardless of enrolment in MOAs. A second key finding is the statistical insignificance of the interaction variable, suggesting that employment gains made by HA/treatment and comparison groups in the post-MOA time interval are the same. This confirms the findings in Table 7.4, but the conclusions are more robust because they control for differences in the time interval since enrolment in MOAs, and time-varying heterogeneity with respect to observable control variables.

There are some other notable findings in Table 7.5. When we lag the interaction variable (see final column of Table 7.5), it remains statistically insignificant. Finally, the strong economy and its positive impact on employment prospects are reflected in the positive fixed effects common to all MOA participants in each wave. Also the type of MOA appears to be influential in shaping employment outcomes; training programs seem to be relatively ineffective, though this conclusion is subject to qualification.¹¹³

7.4 Discussion and concluding comments

Our findings on potential synergies between Australian ‘welfare to work’ reforms and HA are at variance with those of most US studies reviewed. The long-term unemployed Australians required to enrol in MOAs are not more likely to achieve sustained employment gains if they are eligible for HA. We advance three possible reasons.

First, the US studies typically ignore the statistical problems that we have tried to address. They do not check for time-varying heterogeneity as in Table 7.4; if multivariate modelling is conducted, model specifications are more rudimentary than in equation 7.1 above. Generally, cross-section models are estimated with the inclusion of a simple indicator variable to detect HA effects. Panel model specifications may reveal different findings that are more robust.

Second, CRA is the main HA program received by the Australian HA/treatment group and it is an entitlement available to all income-eligible residents of private rental housing. The equivalent in the US – housing voucher programs – is rationed, with income-eligible renters joining queues. The sample design in US studies is typically restricted to renters enrolled in welfare programs. If most are eligible for vouchers, as seems likely, the HA/treatment group will be people who have reached the top of queues before or during the study timeframe. The comparison group is then eligible welfare recipients still waiting in the queue. At acceptance on to ‘welfare to work’ programs, the US sample is then less likely to feature the different expected employment outcomes by HA status that we find in Australia. The quasi-experimental study design could then be more efficient at detecting the positive impacts of HA on employment outcomes.

Third, the scope of the early Australian reforms was more limited than their US counterparts. MOAs were originally targeted at young adults belonging to the pool of the long-term unemployed. Those on DSP and PPS were outside the scope of ‘welfare to work’ reforms. The latter group of welfare recipients are particularly prone to poverty and unemployment traps if receiving HA. It may be that, as this group are brought within the scope of MOAs, the comparative employment profiles of HA

¹¹³ Cream-skimming by case officers and self-selection are reservations.

recipients will begin to resemble those in US studies. However, on the basis of the empirical work conducted here, we can find no evidence for synergies between Australian HA programs and 'welfare to work' reforms.

8 HOME LIFE, WORK AND HOUSING DECISIONS: A QUALITATIVE ANALYSIS

8.1 Introduction

NRV1 has two main streams of research: quantitative and qualitative. In the preceding two chapters we have used quantitative methods to explore hypotheses about the behaviour of recipients of HA. The quantitative modelling uses secondary data sets that have inevitable limitations. Commonly the data sets will lack information on some key factors that may affect decisions about economic participation, such as aspects of mental and physical health and day to day caring responsibilities. Furthermore, attitudes and preferences and the ways in which people make decisions about different types of economic participation within a family or household context remain something of a 'black box'.

The qualitative research complements the quantitative analysis by investigating this black box. Through in-depth interviews it examines the attitudes, preferences and decisions of 105 recipients of HA in relation to various types of economic participation. The research explores the factors that shape current decision making about economic participation in the context of past experiences of housing and economic participation, aspirations and plans for the future. We investigate practical considerations for people in receipt of HA in considering economic participation, such as balancing paid work with caring for children or maintaining mental and physical health, as well as underlying social factors and cultural values about the role and value of different types of economic participation in relation to other contributors to individual and family wellbeing. These are potentially important considerations which are often omitted from formal econometric modelling and which recognise that decision making may be more complex than a response to financial incentives and disincentives. The inclusion of a qualitative stream¹¹⁴ contributes a different perspective to the research program in examining in depth the experiences, attitudes and views of HA recipients themselves. This is important both from the perspective of academic rigour, but also policy. The qualitative research will provide a broader context for understanding the ways in which HA recipients make decisions about various types of economic participation and, in so doing, may pinpoint impediments that can blunt the impact of measures that are based on financial incentives to promote economic participation. We will return to this issue in Chapter 9.

The remainder of this chapter is organised as follows. We begin in Section 8.2 by describing the housing histories of our interviewees and links with their employment careers. This is a helpful addition to the study as it recognises that the current attitudes and decisions of HA recipients are often grounded in previous experiences and the cultural context in which people live their lives. This might include, but is not restricted to, prior experiences of economic participation and housing. Section 8.3 reports interviewees' views on the benefits of paid employment. Most were not in paid employment at the time, and so responses focus on what people miss about employment. We then address HA and whether – and, if so, how – it is important when people are considering economic participation. An important dimension of housing is location and transport. The relevance of place related considerations

¹¹⁴ The qualitative research is based on an interpretivist epistemology in which knowledge is derived from everyday concepts and meanings – lived experiences and actors' definitions. This involves understanding of the whole rather than component parts (variables), and includes a time dimension and a cultural context. It is not intended to establish causation ('why'), although it may generate understanding of the chain of events; it is intended to understand how people come to make decisions ('how').

rounds off Section 8.4. Section 8.5 focuses on gender and family and how children affect decisions about economic participation. Nearly one half of the women interviewed had dependent children living with them. Many HA recipients receive DSP, and this is particularly evident in public housing (see Chapter 2). Section 8.6 examines mental and physical health as barriers to economic participation. A final section concludes by reporting the views of our interviewees on welfare benefits and government policies.

The 105 interviewees are all HA recipients and have been selected from six different locations in Victoria and New South Wales. Those readers interested in how the sample was selected should consult NRV1 Research Paper 7 (Hulse and Saugeres, 2007) where they will find ample discussion of research methods.¹¹⁵

This chapter is a summary version of Hulse and Saugeres (2007). It highlights some of the main findings and illustrates these with direct quotes from interviewees (using pseudonyms). However, we present only a small selection of the interview material and cannot do justice, given space considerations, to the wide range of experiences and histories conveyed in interviewee narratives. Those readers who want a richer treatment of the material are recommended to consult Hulse and Saugeres (2007).

8.2 Linking family, economic participation and housing histories

The economic participation, family and housing histories of the 105 interviewees are typically interrelated. The interviews give us an appreciation of how important people's background histories are to their current circumstances.

8.2.1 Family background and circumstances

A striking pattern was the extent to which interviewees reported that they came from families in which their parents had divorced or separated and often, as a result, they moved while growing up. This corroborates the results in a stage 1 NRV1 project that used the HILDA Survey to examine the family background of HA recipients (Kelly, Ong and Wood, 2005).

Louise, 29, single, with children, first lived with her divorced grandmother, now living in south-western Sydney:

Yeah, she was divorced. Yep, when I was two that's where we moved to, and we lived there until I was 12. We moved in with my mum's fiancé and we were there until I was 16 and that was also a Department of Housing property and there was just one of my sisters, my other sister had had a baby so it was just one of my sisters, and then mum left him and my other sister moved out of home and it was just me and mum. We moved into a place at Rosehill, just a little unit, and mum ended up moving out on me. [laughs] She left me at home when I was 17.

Katrina, 21, single, two children, living in western Sydney:

We got, we moved around a lot because dad was hardly ever home, he was working a lot. He was doing security and all I remember was that we used to move around a lot and we stayed at a couple of mum's friends' families, like friend's houses for a while until we got another place and stuff like that.

A significant number of women and a few men said that they had experienced abuse and/or violence when growing up. Indeed, 22 women (31 per cent of the 71 women

¹¹⁵ NRV1 Research Paper 7, pp. 15-22. Chapter 3, Section 3.2 of this Final Report offers a summary on research methods (Hulse and Saugeres, 2007).

interviewed) and five men (15 per cent of the 34 men interviewed) had witnessed domestic violence or verbal, emotional or physical abuse between their parents, and/or had themselves been the victims of some kind of abuse and/or violence from one or more family members.

The men and women who had experienced violence, trauma, abuse and/or assault said that they had struggled with the impact of this for most of their lives. It had impacted on their schooling, their health, their abilities to find and keep paid work, intimate relationships as well as other relationships in and outside work. Often people who had been abused as children by family members were particularly vulnerable and had experienced other forms of abuse and trauma from outside the family.

Nicole, 35, spoke about running away from abuse when she was 11 and 12, living on the streets and becoming a drug and alcohol addict. She moved between states, left school early, was in the juvenile detention system, and was a youth worker for a while. She was able to go back to school and into university while she was still living on the streets and already using drugs and alcohol. She was unable to finish her degree as a result. She had different jobs but got fired many times because she also had problems with authority, as well as drug and alcohol issues. More abuse and assault followed.

Several other women had also moved to other states or towns in order to escape domestic violence. They often ended up in refuges with their children before they could get transitional housing, and later public housing. The violence and abuse that the women had experienced was traumatic, and all were still suffering from stress, anxiety and depression. Relationship breakdowns, having to raise children by themselves, often with no family support, all added to the difficulties that they experienced and impacted on their ability to take up paid work. This background of family instability and residential mobility may shape economic participation histories, an issue we now examine.

8.2.2 Economic participation experiences

Education levels were not generally high, with 54 out of 71 women and 26 out of 34 men leaving school before Year 12. Most of those who had completed Year 12 did not continue with further studies. Most of our respondents said that their parents did not have any expectations for their children when they grew up, and did not encourage them to stay in school.

Jacob, 38, single, living on the Central Coast, who never met his mother and lived with his father:¹¹⁶

I: And what about your father, did he have any expectations about what you would do when you grew up?

R: Not that I know of. He's an alcoholic, see, so all he thinks about is this. You wake up in the morning, you try to have breakfast, and he's drinking wine and you just turn off and sort of thing, so that's why I got into so much trouble.

Many of the women interviewed, particularly those over 30, said that their parents did not encourage them to study or follow a career path because as girls they were expected to marry and have children.

The vast majority of people interviewed had fractured employment histories, with multiple jobs, several periods of unemployment and other time off paid work. For example, Sylvia, 34, single, with a 12-year-old child, on PPS, living in public housing

¹¹⁶ Questions asked by the interviewer are labelled I and responses from interviewees are labelled R in the transcripts below.

in western Sydney, did not know what she wanted to do as she was growing up, and her parents did not have any expectations of her. She started Year 11 but found a job as an office assistant and left school at 15 to take it up:

R: I mean, back then the wages were quite bad [laughs] and given my age and stuff there was a lot of travel ... every day but I did that for 2.5 years for that company, but yeah, I like working.

I: Yeah. So you were there for 2.5 years and then what happened after that?

R: From there I left that job and went to a different job at St Leonard's which was even further travel. To work for [X] Insurance, which no longer exists. Then I did that for 2.5 years as well.

I: Right. OK and then what happened?

R: Then I left that job and went to work ... for a computer company for about eight months I believe and while I was there, I fell pregnant with my son ... I was still with his father at that time, we separated when my son was 12 months old.

I: OK.

R: But after I had my son I went back to work, for an electronics company ... and I was only there for a few months and that's when my relationship ended and I hadn't arranged sort of childcare or anything like that for my son so I had to leave that job, stay home again and I've pretty much been there ever since. It's been really hard to try to go back to work for someone to even, like, give you a chance at a job when you've been out of work for a long time.

Many of the people interviewed moved from one job to another, because they did not like where they worked or were looking for something better or 'different', even if most of them did stay for a few years in one or two places of employment. Several preferred casual paid work rather than being tied down to a permanent job, or had been fired or retrenched and thus had to look for another job. Often people lived very precarious lives characterised by employment insecurity and a background of adverse events such as family breakdown, injury and/or illness, or being fired or retrenched. In the case of our male respondents, these events exacerbated stress and depression, and/or alcohol and drug addictions.

Many of our single interviewees, both men and women, felt their lives 'had gone downhill' and they were at a stage where they were trying to get their 'lives back on track'. Ralph, 53, divorced, two children, on Newstart, renting privately in Greater Dandenong, was born in Europe but his parents came to Melbourne when he was very young. His father was a mechanic and his mother worked part-time in retail. After Year 11, he went to a Tertiary and Further Education (TAFE) institution and did a one year basic computer course. He worked for 18 months as a computer programmer then went back to do a diploma course in programming. However, he did not complete the course. Ralph nevertheless had several jobs as a computer programmer, but could not remember exactly why he left a lot of the jobs:

R: Some of them may have been because of the shift work, because of operating, and I got sick of shift work, so there are jobs where you can operate and just work in the daytime whereas some of them I probably had to do day, afternoon and night. Then I eventually, after four or five years I eventually got into computer programming at ... a chemical place. I stayed there for about three and a half years and they trained me, they gave me lots of courses and I was in the right area, IBM.

I: So what happened after that?

R: After that I went contracting.

I: So why did you leave that place?

R: After three and a half years? I think it was the fact that, it might be peer pressure or you see what other people are doing. I mean, I can't remember the salary in those days at that time. I mean, computers has always been a good salary compared to others, so I probably would have been on a reasonable salary, but contracting you can get an hourly rate and I felt like, and I was probably just married, or maybe even just, no, I think at that time, yeah, I wouldn't have had the kids by that stage, but married, and I saw an opportunity to make more money working on an hourly rate. You know, and with a lot of these jobs, full-time jobs, you have to sort of work overtime and sometimes you didn't get paid for overtime and all this sort of stuff, whereas I felt like you get paid for every hour that you do, so if you do 50 or 60 hours, you know, you're going to get paid for it, so, and it was a good rate anyway.

During the time Ralph worked as a contractor, he had up to eight jobs in different companies as they all lasted between six months to a year. He found that it was becoming harder for him to get contracts and so he took a full-time permanent job. He was with that company for four years before going back to contracting. Again he could not really remember why he left this job:

I think the fact that I was doing that travelling and I had a young family, I wanted to be with my family, so that was one, probably, reason ... So I went back to IBM contracting for a bit and then, I've been out of it for three and a half, four years, so let's say five years ago I took a permanent job as a computer analyst/programmer.

Ralph got another full-time permanent job somewhere else because there was more and more time when he was not working between contracts. However, he did not go on Centrelink benefits as he earned good wages when he had a contract. The most recent permanent job lasted for 14 months before he was retrenched. This happened four years ago, but since then, he had not been able to find a computing job:

I remember after, it was maybe after something like two or three months, because I think you tend not to want to go to Centrelink, you know, you don't want to do that, and I remembered one of the agencies that got me lots of jobs in the past, and I contacted her and she said, 'Look, I think what you should do is go onto Centrelink.' So that was sort of the alarm bells starting – I think this might be a bit harder to get back in than I thought.

He had been able to find casual administrative work on and off, and had worked in a call centre for a month but he had left because he had felt that he was 'getting bullied by his manager'. In the last 10 years, he had also been diagnosed with depression and there were problems in his marriage before he and his wife divorced.

I think my marriage had been bad for a long time, but we stayed together for the kids or whatever, so you know, so you don't know whether you're in a bad marriage and you're taking it to work, or whether work's too hard and you're taking it home. I don't know. But there was times at work that, you know, I can remember, whether it was pressure of not knowing how to fix problems at work or whether I had enough of that sort of work or whether it was people ...

Ralph, like most of our respondents, still did not know what kind of work he wanted to do. Several described themselves as having drifted aimlessly or having fallen into

jobs. This appears to be connected to their lack of ambition and lack of encouragement when they were growing up. People had many jobs because they never felt that they were ever doing what they really wanted to do but never knew what they really wanted to do.

8.2.3 Housing histories: mobility and instability

Our respondents' housing histories were intertwined with their employment and family histories. They are marked by high rates of residential mobility within the same town or city for many and between region or states and even countries for others. Most had lived in different tenures, and in different household arrangements.

Justin, living in Greater Dandenong, 43 is divorced, on DSP and in public housing. His father owned his own business in Greater Dandenong. Justin left school at Year 11 and went to work for his father. He moved out of his parent's house at 20. His parents had owned three houses, they had moved each time to have a bigger house. Justin moved with his partner into a private rental property before they got married. They had 12 month leases and lived in three different properties:

You just assess the, I think, the time in the flat, we moved because it was too small, you know, too small, and the second place we moved, our older house, and my son got a chest infection when he was in the house, just the environmental condition. I think it was ... the transport time down there going to and from work.

After that they bought a house and lived there for over 10 years but then moved to where Justin's business was based and lived on the premises while they let their house. After he separated and was working as a truck driver, he was living in his truck or with a girlfriend in northern Victoria for a year before moving to Sydney. There again, he was working for a company and living on the premises. He returned to Greater Dandenong, renting from an elderly person, being his carer and thus paying very low rent. After that he was homeless, living with his brother for a while but was told to leave because he was using drugs. He went back to live in his car for a while. He then lived for nine months in a transitional house before getting into public housing. He was now hoping to have a more stable life:

It's a 3-bedroom home, accommodating, because I'm trying to get regular custody ... I wasn't suitable to have any children staying overnight, it didn't have suitable accommodation. My children couldn't come and stay with me in the car [laughs] and then at my brother's house, I haven't had a suitable place to have my children in the last 12 months. Where you can say, I've been a little bit more stable, I've had my youngest son stay over a couple of nights ...

8.3 The benefits of paid employment

Interviewees were given an opportunity to express their views about the benefits of paid employment. As most were not undertaking paid work the question eliciting the most detailed responses concerned what they missed about doing paid work. An important issue here is what motivates the search for paid employment.

Only a very small number said that the only reason for wanting to be in paid work was having money. The majority of our respondents did say that they missed earning a wage because most of them struggled financially to make 'ends meet' while on benefits. Some who had been on benefits for a long time said that they were used to saving and living on a tight budget. However, most missed being able to have 'extra cash' to buy items other than the basic necessities.

Chloe, 54, single, two adult children, living in public housing on the Central Coast:

I: And how much do you get for the disability pension?

R: \$500 and something, but that is not enough, not really, when you've got things to pay, a car to keep and all that. That is what I mean, I miss work, like you do things when you are working, you have got more money and that, you know.

Two other important aspects that most interviewees missed were being with other people and being busy and stimulated with some structure to their lives. Those who did not study, carry out voluntary work, or work on a casual basis felt very isolated. Many did not have any relatives nearby or were not in contact with any of their family members. Even if they did have relatives nearby, they often had no other social circle.

For example, Anita, 48, single, five children, on DSP, living in public housing in Darebin:

I: Is there anything that you miss from not being in regular paid work?

R: Oh, part of it is the money, the other part is [pause] you meet people at work ... Even if I did regular paid work, I would probably just do sales, and you can meet people just at their house, you know what I mean.

Malcolm, 48, divorced, five adult children, on DSP, renting privately on the Central Coast:

I: Is there anything you miss about regular employment?

R: Yeah, I suppose, people you meet, like going to the pub after Friday afternoons or Saturday, people you know. On the dole, you know, it's just the same people every day, every week, no-one's got a cracker.

Women looking after their small children said that they missed the company of adults during the day: Olivia, 25, single, one child, renting privately in Ballarat:

I: Is there anything you feel you miss from not being in regular employment, apart from the money?

R: I think that, yeah, it's [pause] actually having people to talk to, you know, because I don't know anyone. So it's very hard to make friends and things like that. So that's the one thing that I do miss by not having regular conversations with adults and people, you know, my age. [laughs]

Several wanted to earn an income in order to live independently from welfare, a situation that they found demeaning. The vast majority also talked about the stigma that they felt attached to them because they were receiving benefits. People living in public housing and particularly single mothers felt that they were viewed very negatively by society. They felt that by being in paid work they would regain a social status and respect, simply by the fact that they had employment, but also because they would be able to live in areas they wanted to and get the kind of housing they aspired to. For instance, when asked what were the reasons for her working in the past, Sylvia, single with one child, living in western Sydney in public housing, said:

It's to earn money, it's to feel good about yourself, you know, to have more confidence going out there feeling like you're contributing to society, you know, that you're not a dole bludger or a single mum on a pension or those stereotypes, you know.

An intriguing aspect of these responses is the positive non-financial benefits that interviewees expect to gain from paid employment. Yet almost all these interviewees

were not in paid employment. What do they have to say about the factors impeding transitions into work? This question is addressed in the remainder of this chapter.

8.4 Housing Assistance and location

This section makes an important contribution to the debate concerning relationships between HA and employment outcomes. It reports how different types of HA and the subsequent costs, attributes and location of housing are important to people in considering economic participation. The findings are presented by type of renting: private and public. An important dimension of housing is its residential location as this will shape access to employment opportunities. The second half of this section explores interviewees' views on the importance of place location and transport.

8.4.1 Private renting and Housing Assistance

The majority of people who rented privately and received CRA (57 people) thought that loss of some or all of this if they got paid work would have no impact on their decisions to engage in paid work.¹¹⁷ For instance, Sebastian, 40, single, on Newstart, renting privately in Ballarat, had interrupted his degree in nursing due to alcohol addiction:

I: If you got a part-time job, do you know what would happen to your Rent Assistance?

R: You can earn a certain amount. I'm not too sure of the exact figures but I would find out and that wouldn't prohibit me from working. If, say, I was working in a nursing home helping out there, just personal care attendant, that type of thing, I could see that as a benefit to myself and other people, I would do it at the expense of Rent Assistance and of Newstart. If it was waiting on people and it meant I worked one day instead of two, I would say 'I can only work one day' and I would keep my benefit. I would weigh up the pros and cons of each situation.

A problem identified by our respondents was the fact that there was little security in the private renting sector. Most had had to move at some point or another because the property they were renting had been sold or the landlord put the rent up. Having to move while not being in regular paid employment caused a lot of stress and disruption when, as we have seen, the majority of people receiving HA were already experiencing or had experienced stress or anxiety and health problems in their lives.

Joanna, 50, single, with two children, on Austudy, suffers from depression and physical health problems, renting privately in Darebin, and was now trying to get a house in public housing outside Melbourne:

When you're in private rental, you can be evicted at any time. And what this landlord did to me after 14 years was unspeakable ... Right on Christmas, November, we were told it was going to sell. Then they told us it wasn't going to sell. And then we got a letter handed to us just after Christmas, it was up for auction. Didn't sell, and then it went on and on and eventually she promised we could stay there till the end of the year ... But the dilemmas and the stress it caused myself and my children were shocking because, one, I had no money to go out and put \$1,000 down, I didn't have the bond, [the Department of] Housing helped me here but I didn't have, what do they call it, five weeks in advance for rent and I couldn't get anything within my budget and when you'd

¹¹⁷ This finding also applies to people living in community housing and in receipt of CRA.

go to the real estate agent, they'd talk to you as ... it was disgusting, their attitude ... Financially I couldn't do it through a real estate agent.

Joanna eventually found another property through people she knew who referred her to a private landlord who was willing to negotiate how much bond and rent she would pay. Other respondents said renting through an estate agent while being on benefits was more difficult than through private landlords.

8.4.2 Public renting and Housing Assistance

In contrast to private renters, public housing tenants' employment decisions were more affected by the prospect of having to pay increased rent, or even losing their housing. Most of those interviewed did assess whether paid work was financially worthwhile before they considered it. They found that they were usually financially better off either not working or taking up casual or part-time temporary work that gave them an extra income without affecting their rent. The poor financial returns to permanent employment confirm the microsimulation estimates of unemployment traps reported in Chapter 4 (see Figure 4.2). The impetus to take temporary employment despite rents that are fixed at 25 per cent of assessable incomes may arise because some SHAs offer 'rent holidays', so that earnings from casual fixed term employment leave rent unaffected. There are other measures such as working allowances in Western Australia (see Chapter 4, Section 4.3.2) that also favour casual fixed term employment.

Several people had been on public housing wait lists for a number of years. These respondents were renting privately, and did not want to work or to look for work so that they could remain eligible. Celina had been on the wait list and had tried unsuccessfully to apply as a priority. She was hoping that she would get public housing this time:

Now, I could go and work somewhere else and get that money in a week if I wanted to, but I wanted to do it this way because I want to stay unemployed, because I want to get to the public housing, because I think I have the right if I have been chucked out of my home, and these stuff are still in boxes. I need to get a place where I'm secure. I don't want people on the rim of the government to keep putting the rent up, not doing any repairs, and I can't force them to do that. The house is so poor you wouldn't believe it.

Respondents who lived or wanted to live in public housing did so because they, like Celina, wanted the security and stability that it provided. They could keep it for as long as they wanted to, they did not have to worry about being evicted, finding themselves homeless and having to move when they did not intend to. Caroline, 31, single, one child, who was now living in public housing in Ballarat but had previously rented privately:

I: So what would you say are the advantages of living in public housing, as opposed to renting privately?

R: Well, at least I'm not going to be kicked out if the landlord wants to take the house back or sell the house or that. I've had to move quite a few times because of that ... if the landlord decided they want someone else in it or they want to move in it themselves or want to sell it, so there's that. And the cheaper rent.

Renata, 45, on Newstart, two children, renting privately in Greater Dandenong was hoping to get into public housing:

You feel really insecure in somebody else's home, you know, knowing that it's pretty well only – if you don't pay the rent, well, you're out, you know. And yeah, it's – that's why I'm hoping to get, you know, a Housing Commission place of our own so we can – yeah, feel settled because it's not – even though we've been here for a couple of years now, it's still not – I don't feel settled because I know it's not mine ... Well, I, well, basically once – once you get in public housing, well, they can't really take it away from you if you don't – I mean, I suppose if you burn the place down or you don't pay your rent. Well, I guess it's the same in private housing, but with public housing it's not as expensive and you should be able to afford to pay that, you know.

The perceived security of tenure reported by these respondents confirms the assumptions underlying our analysis of welfare locks in Chapter 6. Applicants on wait lists are subject to income eligibility tests that deter transitions into employment. But once in public housing, tenants believe that they have security of tenure provided they observe the terms of leases. Welfare locks are relaxed and no longer pose an effective deterrent to search for or acceptance of employment.

Lack of housing stability impacted on employment participation in that several people said that it was important for them to feel settled in their housing before they could look for paid work. For instance, Theresa, 36, from the Philippines, divorced, four children, had stopped work to look after her children. Now that she had a house from the Department of Housing she had started to work a few hours a week. However, many people had experienced problems when living in public housing. As a result, quite a few people had left or were hoping to leave public housing. For some, this was a major motivation for them to find paid work so that they could afford to rent privately and live in an area where they would feel comfortable. Several single women with children who were living, or had lived, in public housing feared for their safety and that of their children. This was the case for Theresa, living with her children and her mother on a public housing estate in Darebin.

Like I told you, I have nothing against people who live here. I'm just scared for my safety, I'm just concerned for my children. If I'll be given that opportunity to move to a private house, a private rental house, I will move to a private rental house ... The social worker that's helping me, that's what I told her. That's my target now. That's what I aim to happen in the future. I want to move out of here. I want to rent privately ... I want to be maybe in a more decent place, although you're not sure, you're not sure who your neighbour will be. You know, you can have a neighbour from hell if you're in the private sector. So you're not really sure.

Several people said that living in public housing estates or high rises surrounded by unemployed people with social problems was not a conducive environment for people seeking work. Some, especially single mothers, were worried about their children growing up on these estates and being negatively influenced by others who lived there. Julia, 49, from a northern European background, married, with two adult children, was renting in community housing but had lived in public housing estates in south-western Sydney:

In Casula there was a lot of unemployment, a lot of them in Casula. Not Casula, sorry, in Lurnea, a lot of them in Lurnea in the estate, it's just over the bridge from Casula shops, and it starts, there is an estate there and hardly anybody works. So the environment my kids was in there was, it wasn't encouraging them to go to work. And neither was it when we was in Hoxton Park and there was 20 villas, most of them didn't work.

Carl, 37, single, one child, living in public housing in south-western Sydney, on Newstart said:

I: Did you ever find your postcode or the fact that you lived in a particular area impacted on your chances of getting interviews?

R: Yes, only when I mention Macquarie Fields.

I: And what impact did that have on you?

R: It was devastating. I became depressed and seemed like every time I turned up for an interview and was qualified for the position I got knocked back. So depression set in and I didn't want to do anything then, after getting knocked back so many times. So I tried changing addresses, doing a PO box, and that didn't work neither because stupid me put it under Macquarie Fields, not the street name. So now when I apply for a job I don't mention that area at all and it seems to be getting me further in for a second interview or a third interview.

8.4.3 Transport problems

Overall 58 per cent of people interviewed did not have a car or access to a car, with 33 out of 71 women (46 per cent) in this situation compared to 28 out of 34 men (82 per cent). The high proportion of men who did not drive is linked to drug and alcohol problems. Most respondents without a car have to rely on public transport and this severely restricted access to employment opportunities and to jobs that did not require driving/having a car. Thus the location of housing that people can access with their HA, whether public or private rental, is of utmost importance to their capacity to participate economically and socially.

Caroline, 31, single, with an eight-year-old child, living in public housing in a suburb of Ballarat, was without a car for a while because she could not afford the cost of repairs. Having now obtained a bank loan and a car, she was able to do some casual work once a week:

There's a home daycare lady down the road now, which I can drop her off to and she'll take her to school for me if I go to work, and I think it's \$4.50 an hour. But the thing – I had no bus service to take me, because the buses didn't start until 6.30 a.m. and I had to already have her dropped off by then, and then try to find another bus to get me back to work, to be at work by 7 a.m. So I couldn't do the three bus trips when there's none, and I wasn't going to pay \$20 a day in cabs to do that. So now I've got the car I'm not so stranded like I was.

Cecilia, 50, widowed, five children, renting privately in western Sydney, without access to a car, said that there was a shortage of paid employment in the western suburbs as well as limited public transport.

If I lived in the inner city there'd be a wider range of jobs that I could do in the welfare area because there's more of them, and transport networks are much closer, even road networks are much closer.

8.5 Gender, work and family

A major difference in the living situation of women and men is the presence of children and gender roles in daily lives. We now explore the factors that are important to female HA recipients with children in making decisions about economic participation, particularly in relation to paid work. 30 of the 71 women interviewed had dependent children living with them. Although 11 of the 34 men interviewed had children, only

one had custody of his child full-time. Thus the chapter focuses primarily on mothers' attitudes to, and decisions about, paid work.

8.5.1 Gendered beliefs and values

The 24 single mothers and the six partnered mothers with dependent children said that they were not in jobs mainly in order to look after their children. They felt that it was their moral obligation to do so because it was their role to stay at home with the children until they were of school age, and to also be there for them when they came back from school. These views were very strongly held and thus, even if they wanted to undertake paid work for either financial or non-financial reasons, they were looking for hours that fit around the needs of their children, either now or in the future.

Single mothers felt particular responsibility with respect to the care of their children because they were the only consistently available parent. Some single mothers also felt that they should protect their children. For instance, Joanna, 50, living in Darebin, two children, now 17 and 19, explained why she wanted to look after them when they were home:

There was always some sort of problems going on with the kids and I believed being home when they got home was showing that there was a stable mother, even though financially and food was very difficult. I believed that being there when they got home and supporting them was the only option I had as a single parent, because with Brian having learning difficulties came a lot of adolescent behavioural problems, and if I was out to work I would have lost my son. So I think between the school and, can we put the word as sacrificing career or however you want to put it, was the survival for my children. So even though Brian's not employed, he's turned out to be a fabulous young man that eventually will work. Katie has turned out to be a really head-straight, level person who's going to go somewhere. I don't have the kids taking drugs, drinking, partying, so I have no problems. I do believe what we've sacrificed in the long run has been for the benefit of the kids.

Women who had children and did not have a partner felt stigmatised for being 'single mothers' and felt it doubly so when they lived in public housing where there was a high concentration of single mothers. At the same time, mothers felt that the work that they did in the home with their children was not valued because it was not seen as real work. This led to conflicts for many women who felt that whatever path they took, they could never do the right thing. For instance, Jackie, 36, partnered, four children, in public housing in Ballarat said that she 'loved being home', that she was proud of being a mother staying at home and felt that this was a job worthwhile doing. However, during the interview she kept alternating between this view and the view that she would prefer to be in paid work in order to feel that she was contributing to society and feeling better about herself:

I'd probably go full-time because I feel much, I don't know, it's not that I feel unworthy of getting a Centrelink benefit but I'd feel more self-worth having my own job and being the, what do you say, the breadwinner, you know. Because, I mean, Johnny's [her partner] worked, you know, but I know that with my experience and my education, because his education levels were only Years 7 and 8, and I know I'd do better bringing the bacon home as they say ... It's been, what, nearly 11 years now since I've been out of work. But at the moment my main priority is to get my little fella off to school. I've done it with the older three, settle him into school and then I'll feel more comfortable, even if I do start part-time and just do my 15, or three hours a day or whatever. If I

feel comfortable with that I would probably keep at it, because then I'd be home.

Women who had been out of the workforce for some time to look after children felt that they did not have the skills and confidence in themselves to find paid work. Daniella, 41, widow, three children aged 15 to 20, living in public housing in south-western Sydney:

I: So at the moment, so the main reason you are not in regular employment at the moment, what would you say that is?

R: Probably lack of established working career, like, background. I mean, what experience have I got after raising three kids? I suppose we could put that on a resume as, like, you know, changing nappies. I have been a stay-at-home mum and tried to grab a bit of an education while I was doing that, which was hard because I did marry a man that believed in, and I believed in it at the time as well, staying at home and concentrating on the children.

8.5.2 The logistics of looking after children

Several of the women interviewed who had tried to take up paid work had faced practical problems. These included finding affordable childcare, the cost of transport, and employment hours that fit around the children. Some of the single mothers had tried to work but found it too stressful and exhausting to combine paid work and taking care of their children, especially when they did not have any support from friends or relatives. Patricia, 41, single, two children, renting in public housing told how she had to leave her last full-time job because the work stress, combined with domestic and caring responsibilities, was too difficult:

I was the acquisitions officer, so I was actually doing a librarian's job, yeah, and I was in charge of all the ordering for the libraries on six campuses, so it was quite a demanding job and a lot of responsibility ... So having the two children, at that stage they were school age, and I thought would make life a lot easier, but there were a lot of issues at work that I just couldn't deal with and I was just ... just stressed. We were living on take-away because I was so tired by the end of the day, pick the kids up, come home, and I was not spending any quality time with them, I was just so exhausted.

Because the partnered mothers with young children and single mothers only wanted part-time and flexible hours, the work that they found was often casual and low paid. Thus, in terms of childcare and other costs of working, such as transport, together with the stresses of working and looking after children, it was often not worthwhile for them to be in paid employment, even when they wanted to be. Cleo, 24, partnered, two children, renting privately on the Central Coast, said:

Oh, I think when it comes to daycare it would be the cost. Would we be able to afford it at the moment and if I did want to go out and look for work. Until I got a job we wouldn't be able to afford to have them in every day, and then it depends on how much. Because I don't have any skills I would probably get a low paying job as well, and it probably wouldn't work out to be better to be working and paying daycare because it's too hard to pay for. I don't think it would be worth it. Yeah, I don't think it would be worth it.

The costs of working identified by our respondents include childcare costs for parents, but also transport to and from work, having to buy new clothes (even to go to interviews), no longer having the time to shop around for the cheapest bargains, and losing the health pensioner card and all the benefits it provides. This is the case for

Tammy, in her early 40s, divorced, renting privately in Greater Dandenong, with a 15-year-old mentally disabled son:

I'd be lucky to make – well, sorry, to earn – nearly as much as I receive from the government. I was hoping to make a little bit extra than that because when you work you've got employment expenses, travel and clothes, maintenance most definitely in the work place most of the time and that sort of thing. And also the way I cope financially now, I wouldn't be able to cope when I'm working because I've learned how to get things for the absolute lowest price in this area. I have a lot of extra time. I couldn't do that whilst holding down a job.

Most of the people interviewed have relatively low levels of education, and thus can only find low paid work. Many women feel that they could only work part-time or on a casual basis. As a result, many people say that they would have to make sure that if they take up paid work they do not earn more than the threshold allowed by Centrelink, otherwise they would lose their benefits (including CRA for private renters) and public tenants would face increased rents. With the various costs that can accompany paid work, many consider that they would be worse off when working. These views corroborate the research findings in Chapter 4. There we reported that 80 per cent of unwaged sole parents in public housing have replacement rates in excess of 75 per cent; the 75 per cent benchmark is where income when not working replaces three-quarters of income in paid employment. The replacement rate estimates did not take into account childcare costs, transport costs or the other costs incidental to taking a job. We therefore concluded in Chapter 4 that most sole parents in public housing would be worse off on taking a job.

8.6 Mental and physical health as a barrier to economic participation

Mental and physical ill health affects attitudes to, and decisions on, employment participation by HA recipients. 26 people were in receipt of DSP but mental and physical health problems were not restricted to this group.

8.6.1 Mental and physical ill health and substance abuse

Our interviews indicate a strong pattern of connection between family instability and dysfunction in childhood and mental health problems in adulthood such as depression and stress. Depression, stress and anxiety had impacted on interviewees' economic participation, particularly those in receipt of DSP. Some who were not receiving DSP also left some of their jobs because of depression, stress and anxiety. For instance, Faye, 40, single, on Newstart, renting privately in Ballarat had worked as a customer service operator:

I think I'd had a depression and [pause] yeah, I was really unstable emotionally at that stage. And my boss was, yeah, not at all understanding. And I'd been sick and stuff because I'd [pause] been depressed. And actually I do remember one day I had this terrible earache which turned out to be an infection, and you know, I battled on as you do, and yeah [laughs] they were just really dogmatic. One of them particularly stood over me at the back of me kind of thing and, you know, 'You do this, you do that' and gosh, it was awful. And I just felt really intimidated. And yeah, I think my mental health just deteriorated then.

16 out of 34 men and seven out of 71 women reported having been addicted to drugs and alcohol at some point in their lives. They described how these addictions were used to cover up emotional problems, effects of trauma and abuse and depression. For example, Sebastian, 40, an alcoholic who had been sober for a year at the time of

the interview, had been working for the same company for six years until he decided to leave and go back to studying:

So four years ago I decide, 'Right'. I resigned from there, if we're going to – I don't mind talking about health issues or that sort of thing – I resigned for alcoholism. I was getting really unhappy and depressed, took a year off and decided to go to university and study nursing. I figured people interact. I'm always, I don't mind talking to people, doing something helpful rather than just making, doing a job for the sake of me getting dollars and the management getting their dollars as well. It was a family owned company, and I just thought nursing would be a good clean break.

He took a year off in order to stop drinking, which he did, and enrolled at university. However, because he was dependent on Austudy he could not receive CRA and had to look for part-time work. It was hard for him to find such work as he also had to do work placements as part of his studies and the only type of work he could find was in a bar:

R: The only part-time work I could get was working in a pub ... I'd avoid – I tried, honestly, I tried every – all the manufacturing type places. No, everybody wanted a casual, 'We can put you – we can ring you up', and there's just no way – well, you know what – at university you've got to attend so many tutorials.

Sebastian took a part-time job in a pub so that he could survive financially but this led him to drinking again.

R: So after three months at the Pig and Sheep, I ended up having a bust on the alcoholic run and, being an alcoholic, when you bust you don't just have one or two, you go full on. So I went full on for a month, managed to get through and pass all the psychology while I was still drinking ... But after the bout I was just – I was hopeless, really badly sick and that's led me to where I am at the start of [pause] I had my last drink last September and after the university finished I've been on medical certificates – well, I suppose in theory I still am. This was before Christmas last year. And so I said, 'Yeah, I'm happy – I will do anything. I will try anything to try and make myself better, well'. I've been to – I'm in AA, I've been to counselling, I've been to psychiatrists.

8.6.2 Mental and physical health and paid work

All the people who were not working mainly because of their ill health said that they would like to be in paid work but they did not know when, or if, they would be able to do so. It was particularly difficult for people with mental health problems because their behaviours could be erratic and unpredictable. For example, Eduardo, 48, an Angolan Portuguese, divorced, on DSP due to an injury at work that is accompanied by severe depression:

I've tried, I've tried a few things. I've tried hospitality, but it's impossible because I stopped walking. Sometimes I can't walk, you know, and bosses don't want to know ... I'm constantly, you know, sort of, 'cause 24 hours a day in pain, you know, lying down, sleeping, sitting, standing, yeah, and then the anti-depressants – I want to get out of them but, you know, they said it's not addictive, but it is, you know ... If I don't take them one day, then you know I won't function. Try second day, feel like I'm going to die, you know ... I'm stuck, I feel like I'm stuck.

People also talked about the lack of adequate support from welfare agencies and from the programs that assist transitions back into the workforce. Esther, 50, single, living

in Darebin in private rental, on DSP, who had suffered from severe depression felt that she had not been given adequate help:

I've got a psychiatrist and a case manager and a support worker, but it's a long haul and it's just been difficult. I feel like I need more help, I really do. I can't afford to see a psychologist, which is what I really wanted to do ... Went to see a physician because I had all these problems and she said, 'I'm a bit more worried about your mental state', and I said, 'What do you mean?'. I didn't know what she was talking about and they sent me to the psychiatrist and then they put me in hospital that day. I'd said, oh, I was suicidal, which I was because I was so depressed I just could not find a reason to live. And she wanted to put me in hospital and she said they'll look after you and they'll put you on medication. Well, I'm a bit anti-medication. I feel like I want to do things without medication, a lot of them have a bad effect on me anyway ... I voluntarily went but she said I would be well looked after, so I was taken to the hospital by ambulance and put into the high risk ward with all these really strange people, and people coming up and saying, 'Look at me, this is what you'll end up like, you'll never get out of here'. Like, really mad ... They gave me a room to myself and then I was on suicide watch all weekend and they'd come in and shine the torch in my eyes to see if I was still alive ... I was there the whole weekend for three days and no-one came to me to say anything, no sort of therapy ... I was there for nothing. I came home and I felt so bad.

8.7 Attitudes to paid work, voluntary work, welfare benefits and government policies

Respondents talked about how their values and expectations about welfare benefits and economic participation, including paid work, voluntary work and education, influence the current decisions of HA recipients about economic participation and their aspirations and plans for the future. Voluntary work and care for the disabled is typically neglected in analyses of economic participation. Because it is unpaid, the 'output' is not included in measures of economic activity (e.g. Gross National Product), and this might be one reason why it is neglected. Voluntary work and care is in fact the main activity undertaken by some of those NILF. This group are sampled by HILDA in 2005 (3,721) and asked what their main activity has been since they last worked or looked for work. 3.1 per cent of women reported their main activity as unpaid or voluntary work, as compared to 2.7 per cent of men. The incidence of voluntary work is slightly higher among public housing tenants than those residing in other tenures; 3.5 per cent (4.0 per cent) of women (men) in public housing have unpaid or voluntary work as their main activity, as compared to 3.0 per cent (2.6 per cent) of those residing elsewhere.¹¹⁸ Public housing tenants also devote more time to caring for a disabled spouse or relative than those residing elsewhere. Women (men) who are NILF and living in public housing spend 3 hours (3.5 hours) on average each week caring for a disabled spouse or relative, compared to 2.4 hours (2.1 hours) by their non-public housing counterparts.

8.7.1 Voluntary work

In our study, 47 out of 71 women had engaged in voluntary work, and a further four were thinking about doing so. 12 out of 34 men had undertaken voluntary work. There were marked differences between men and women in the reasons for taking on

¹¹⁸ HILDA respondents are asked to choose their main activity while NILF from a list that includes voluntary work and childcare or home duties. Respondents who undertake both childcare and voluntary work, but whose main activity is the former rather than the latter, would not report voluntary work as their main activity while NILF.

voluntary work, the type of work undertaken, and its duration. Three of the men had done work such as serving meals on wheels or working for a church food bank in order to help out; the rest had carried out voluntary work for a more labour market related reason such as gaining experience or updating skills.

38 women had carried out voluntary work in order to help out, doing mostly caring work such as cleaning and cooking for people with disabilities, homeless people and disadvantaged groups, volunteering at their children's school, or contributing to church activities and community centres. Only nine volunteered for job market related reasons such as hoping it would lead to paid work, or to gain experience in areas in which they had wanted to work. Another major difference was that women tended to do voluntary work for significantly longer periods than men, sometimes for several years. Many volunteered while they were staying at home to look after the children.

For some of the women who had left school at an early age, their work as a volunteer was more interesting for them than the casual low paid work that they would likely have to take if they were in paid employment. For example, Jean, 37, married, three children aged seven to 18, living in public housing in western Sydney, had left school at Year 10, had factory jobs before she stopped paid work in order to stay home and care for her children. She had not been in paid work for over 12 years but had been volunteering at her children's school for nine years:

R: When my daughter started kindergarten I got into the school and I became a second vice-president of the P & C and I worked in the breakfast program at the school and that's where I've been ever since.

I: I thought you had special status when I saw you in the office.

R: Yes, I'm like their boss.

Jean was not looking for paid work at that time because she did not want to put her children in childcare and did not want to leave them home by themselves, but also because of her commitment to the school and her voluntary work there. Estimates from the AHURI-3M model indicate that female volunteers and carers who are NILF have an average individual after-tax income of \$12,600. If they were to take up paid employment, we estimate that typical after-tax incomes would rise to \$22,900. Volunteers and carers are then making a substantial financial sacrifice, and this suggests that their unpaid work gives them satisfaction and a sense of responsibility as Jean and others like her have indicated.

8.7.2 Attitudes to paid employment

Men and women who were not in paid employment felt that they were stigmatised because they were unwaged and receiving Centrelink payments. These respondents clearly thought that it was wrong for unwaged people to be viewed negatively, stigmatised and blamed for their own situation. This was the view shared by the majority of the respondents. However, several reproduced the dominant cultural view that some of the people who received Centrelink benefits were to blame for the situation they were in and were only abusing the system. This was more the case for men than women. For these respondents, it was as if there were two categories of people: the one they belonged to, the decent people who were not in paid work because of valid reasons; and the others, the 'dole bludgers' who did not want to work and abused the system.

Claude, 49, single, living in a boarding house in Greater Dandenong on Newstart:

You've got two types. You've got people that are genuinely looking for work, and they don't have a conscience about that, which is fair enough, because

they are out there looking for work. It's the ones who don't look for work and don't want to look for work are the ones that peeve me off pretty much. From my personal view, you feel a bit awkward. You know your worth yourself, but other people can look at you and say, 'Oh, look at him, you know, he doesn't want to work', but it doesn't really worry me, you know, because I know what I've done.

Several would have liked to be in paid work because they did not like being dependent on welfare benefits and agencies.

Jeff, 42, Indigenous, single, on Newstart, renting from a co-op in Ballarat:

The place I'm renting now is through a church, I think it's a church organisation, we just pay so much dollars a fortnight, and all you do is buy your own groceries. They pay for the electricity and the gas and the water, they supply all the toilet paper and garbage bags and kitchen needs. So that's good in that sense. But then again as I said, it's that welfare dependency, it's that dependency, I'd rather have my own place. I'd like to have a job, find my own place, with my own stuff and running it my way, instead of living off their ways.

8.7.3 Perceptions of 'Welfare to Work' policies and Work for the Dole

'Welfare to work' policies aim at getting people who receive Centrelink benefits to find paid work through a number of requirements (MOAs) that vary depending on the type of benefit. The July 2006 changes extended MOA requirements from Newstart and Youth Allowance to new PPS and DSP applicants when the former's youngest child turns six (or eight if single parent), and the latter if capable of working more than 15 hours per week. Our respondents were asked what they thought about these changes and whether they knew how these would affect them. Most interviewed had heard about the 'welfare to work' changes and understood them in general terms, but very few knew whether or how these changes were going to affect them. Single mothers tended to be more aware of how these changes would affect them personally.

Single mothers who had previously been able to stay on PPS until their youngest child turned 16 are now required to go on Newstart or Youth Allowance when their youngest child turns eight. They will receive a lower income, and will be required to work for at least 15 hours a week or undertake a MOA such as community or volunteering work, or Work for the Dole for 150 hours over a six months period. Most of the single mothers interviewed spoke against the 'welfare to work' policies, saying that it will just make their lives even more difficult. Here are the views of Caroline, 31, single, with eight-year-old child, living in public housing in Ballarat:

I: So what do you think about these kind of changes in that they are trying to get mothers back into work?

R: Well, I think it's hard. Like in my case there's no family or anyone to help with the kids, or when I had no car. And I told the Centrelink guy, OK mate, you tell me how I'm going to get to work, and how am I going to get her to school. That's when he said, well, you'll send her in a taxi, with the taxi driver to school, and you will take her in a taxi to the daycare. And I said that's \$10 and that's \$10, how much is the care? And it's just going up and up and I said \$40 a day, you're kidding, mate. So I've got to like get a bus to work after I've done all those runs with her, and then how do I get her? More taxis across town to go and get her, and then get back home. They've got no idea. They think you're joking when you say you've got nobody – 'Oh, you must have

somebody to help you.' I said, mate, when I say I've got nobody, I mean what I say.

Thus 'welfare to work' policies encouraging single mothers to return to paid work are unlikely to be effective. This is because the policies do not recognise the strength of feeling that these mothers have about making the right decisions for their children, and underestimate the practical difficulties for single women in combining paid work and looking after their children. Furthermore, when single mothers go on Newstart, which is considerably lower than PPS, they will be worse off financially¹¹⁹. From the accounts given in the interviews, it is likely that the increasing financial stress and anxiety may compound health problems where these exist.

Several of our interviewees who had been unemployed for more than six months had been required to complete Work for the Dole. This meant that they had to work for a certain number of hours a week over a number of weeks for an extra \$20.80 a fortnight. Most thought that Work for the Dole did not help them in finding paid work. As we saw earlier in this chapter, a number of people had or were already doing some voluntary work but this was work that meant something to them. But many described the Work for the Dole program as exploitation, and not helpful to them. For example, Ron, 25, on Newstart, renting privately in Ballarat:

R: It's like I'm thinking, Work for the Dole, you are working to get a skill or experience in somewhere so you can help to get a job or someone that's doing, running the program or whatnot can say to one of his friends who is looking for someone like that, hey, I've got a really good person here, try him out and whatnot. Most of the people are there for the free labour, because that's what it pretty much is.

I: Yep. So you don't think it is really that useful?

R: No.

Our quantitative analyses in fact suggest that many MOA participants make employment gains that are sustained beyond the short term (see Chapter 7). But the sample is predominantly young singles on Newstart allowance, and we cannot necessarily extrapolate these findings to sole parents and the disabled who are disproportionately represented among HA clients, the subjects of our interviews. There is nevertheless confirmation of the negative perceptions of respondents on Work for the Dole programs. The quantitative analyses do suggest that employment (and training) programs, of which Work for the Dole is a component, have relatively poor impacts on employment profiles.

8.8 Key findings and concluding comments

Our qualitative research into the attitudes, preferences and decisions of HA recipients has found that the factors encouraging or discouraging transitions into various forms of economic participation are complex and interrelated. In-depth interviews with 105 recipients in six locations have revealed individual accounts of the myriad ways in which economic participation histories, current circumstances and plans for economic participation in the future are related to housing circumstances and home or family life. Analysis of these, however, shows some quite distinct patterns from which more general conclusions can be drawn.

¹¹⁹ This view is confirmed by taking a sample of 125 single PPS recipients (whose youngest child is eight years or older) from the 2003 HILDA Survey. We estimate that diversion on to Newstart Allowance from PPS reduces their average after-tax household income by 8.4 per cent (from \$26,946 to \$24,695).

Our findings have indicated that people do not make employment, housing and life decisions solely in response to financial incentives or disincentives. The decisions are shaped by cultural values, the way in which people understand and interpret these values, and the consideration of a complex range of financial and other factors, including the logistics of daily living.

A striking finding was a pattern of fractured and unstable employment and housing histories which, importantly, was linked with instability in family background and circumstances. We found quite high rates of child abuse and family violence which often had profound effects on their subsequent family, housing and employment circumstances. The level of educational achievement was typically low, and correlated with negative expectations by their families and themselves. HA recipients had worked mainly, and often episodically, in low skill and low paid jobs. Even though individual experiences were extremely varied, patterns of high levels of residential and geographical mobility, of employment mobility with periods in and out of the labour force, and of family instability both as children and adults were common to almost all. For some, their experiences of instability and mobility had been interspersed with relatively stable periods in terms of family relationships, paid work and housing, although many had never been in this situation. The policy challenge is not just about reconnecting people with paid employment when for some reason they have lost this connection, but rather addressing longer-term and difficult issues about family instability, low education levels and expectations.

Despite complicated and unstable family, housing and employment histories, the interviewees considered that paid work had both financial and non-financial benefits. They were often struggling financially whilst on Centrelink payments, and saw paid work as enabling a better standard of living for themselves and their children. Whilst getting ahead financially was important, the financial and non-financial benefits were interconnected. Most wanted to do paid work, or missed paid work, for a variety of other reasons such as having social contact with others and breaking down isolation.

Despite their views on paid work, respondents see significant, and often insuperable, barriers impeding entry into paid work. The four most cited barriers were mental and physical health problems, caring for children and family responsibilities, place/location and transport, and housing issues. Other barriers cited by fewer people included age, lack of confidence, lack of education and experience, lack of support, and a criminal record.

Housing and HA does have some direct effects on labour market decisions. Social renters paying rents based on income understand how rents change if they go into paid work and do the calculations when considering a job. The calculations usually indicate that they are financially better off unwaged or, if they are able to, taking up casual or part-time paid work that gives them an extra income without affecting their rent (through 'rent holidays' for instance). In contrast, private renters (and community renters) in receipt of CRA do not consider this type of HA a barrier to entering paid work. They understand that CRA will decrease or disappear, but have not generally done the detailed calculations. They are more concerned about general withdrawal of Centrelink payments, including CRA. Many private renters felt that unless they were able to work full-time and find a job which paid enough for them to get off Centrelink payments completely, it was better to stay on benefits and, if they could, find work that gave them extra money without losing their benefits and their CRA.

Private renters are, however, concerned about the insecurity and instability of their housing, the condition of their premises and whether they can get necessary repairs done. They are able to exercise control in a negative sense by moving out. Some had attempted to share or move into cheaper accommodation but often these

arrangements had not worked out, reinforcing patterns of instability. Public renters had the benefit of additional security which some found had settled their families so that they could then think about looking for work. Others found that public housing threw up other problems with neighbours that negated the anticipated benefits of security of tenure. They wanted to move back into private rental so that they could exercise more control over their circumstances.

HA also affects the location of housing that people can access, and location is an important barrier to entering paid work, particularly where people do not own a car, do not drive or have lost their drivers' licence. This is a particular problem for the male interviewees, most of whom cannot drive a car for various reasons. The consequence is that they find it difficult to access the low skill jobs that they could apply for, both because of difficulty in getting to work and because many require a drivers' licence as a condition of employment (e.g. couriers, security). Having to rely on public transport was difficult for people in most areas, but was a particular issue in Ballarat, Wyong and some outer suburban areas, particularly in Sydney. People living in areas that were heavily stigmatised – usually, easily identified areas of public housing – found that location or postcode was a significant barrier to getting paid work.

The two most important barriers to entering paid work cited by HA recipients were mental and physical health problems and caring for children and other relatives, in which HA plays an indirect rather than a direct role. A striking pattern was that the majority of interviewees with health problems suffered from poor mental health. Whilst these interviewees generally also reported physical problems, they considered their mental health status to be the most important factor in preventing them working. In addition, the stigma attached to mental health problems and the lack of social understanding about them, as well as lack of flexible working conditions, made it extremely difficult to get back into paid work. It would appear that depression and anxiety and stress disorders are associated with considerable housing and family instability, although patterns of causality are difficult to determine.

As HA is increasingly targeted at people with health problems, our interviewees' experiences suggest that employment participation rates are likely to decline rather than increase. The implications of this trend, particularly for public and community housing, are quite substantial in terms of increased tenancy management and support costs and decreased rent revenue due to dependence on Centrelink benefits, particularly for single people. Concentration of people with mental health problems in particular locations is also likely to add to the stigma which attaches to such locations and their residents. This may well exacerbate the barriers to getting a job for other residents of those areas.

The second major barrier to entering paid work was caring for children and other relatives. In this case, practical problems and cultural attitudes were intertwined. Most of the mothers interviewed strongly believed in staying at home to be there for their children well into their school years, particularly if they were the only adult with caring responsibilities. Some thought that being in some paid work was important, to pay for 'extras' for their children, to escape from a stigmatised status or to provide a role model, but still prioritised being there for their children. Most would only consider paid work that would fit around their caring and domestic responsibilities.

Mothers' decisions took into account the practical difficulties of combining paid work and mothering with arrangements to care for children before, during and after school hours, during school holidays and during periods of sickness. The complex logistics of taking children to childcare or school and picking them up on a daily basis, as well as working and other domestic duties, was also an important factor, particularly if there were health or other problems. The locational outcomes of HA are important here as

these difficulties are increased for those who lack access to a reliable car and live in an area without good public transport. Cultural attitudes combined with practical difficulties meant that many of the mothers could only consider part-time paid work. Such work, where it was available, was low paid and casual, yielding little financial return in compensation for the practical difficulties involved, which included less time to buy food and other goods more cheaply for their families. Overall, the financial and emotional costs of combining paid work and looking after children was a disincentive to taking up paid work.

Economic participation is not restricted to paid employment. Many of the women interviewed, and a third of the men, are doing or have done voluntary, unpaid work. There are clear differences between men's and women's motivations and experiences for doing so. Whilst there are exceptions, the men did unpaid work for short periods of time in order to improve their skills and better equip themselves for work. If paid work did not eventuate, they stopped this activity. Women did voluntary work for longer periods, sometimes for years, not usually to gain experience to get paid work. Rather, they did this when they were at home with their children because it was flexible and could be fitted around their children's needs. Often it was the sort of caring work that in the labour market would be considered low skilled and hence attract low pay rates, such as caring for older people. For these women, getting involved in such voluntary work was an extension of caring for their children and gave them a sense of satisfaction, companionship and identity.

Most of those interviewed did not like having to live on Centrelink payments, not only because their standard of living was low but also because they felt stigmatised. Most felt that it was wrong that receipt of Centrelink benefits and HA attracted such a negative view from the broader community. Some distinguished between people like themselves who wanted to work but could not do so for a variety of legitimate reasons, and those whom they saw as 'dole bludgers'. Most were aware of the government's 'welfare to work' changes introduced from July 2006, but were unsure as to how these would affect them personally, with the exception of sole parents. Most of the sole parents spoke against the changes, stating that they did not take into account their caring responsibilities and the many and interconnected logistical difficulties they faced in combining paid work with caring for their children. The views of people with health problems were more varied.

When asked what would make a positive difference in their ability to access paid work, the vast majority of interviewees said that they wanted to undertake paid work in the future but would need to study, take more courses, train or retrain, and update their skills. For some this was combined with other factors such as an improvement to their health, getting (or getting back) their drivers' licence or finding secure housing. In this sense, the main contribution of HA would seem to be in enabling security of housing in an appropriate location, such that people can feel established and able to update their education as a precursor to finding a job that will provide the financial and social benefits of work discussed above.

In summary, HA has some direct effects in encouraging recipients in making transitions into economic participation, particularly in terms of stopping a cycle of instability and insecurity and enabling them to live in a location that facilitates the logistics of everyday living. It can also discourage such transitions where rental arrangements contribute to the lack of a financial return from working, or where the consequences are living in unstable or unsafe household arrangements or in neighbourhoods that are unsafe and stigmatised. The type and location of housing, and the conditions under which it is occupied, also have indirect effects in ameliorating or exacerbating mental and physical health problems, or capacity to carry

out caring responsibilities, which interviewees see as the major barriers to economic participation. Most want to undertake paid work in the future, but many feel that they cannot do so until they address their health issues and until their children are older. This does not mean that they are not contributing to the community in the meantime. Many women, particularly those with children, and some men are undertaking voluntary unpaid work and feel that they are contributing to the community. If HA is increasingly targeted to those with the most complex needs, it may well be that paid work is not an option for some, at least not for some time. HA may, however, have an important role in providing a stable living environment in which people can manage their health issues, improve their social connections, undertake voluntary unpaid work, and upgrade their level of education. Each of these could be regarded as a building block to future participation in paid work, which most of those interviewed aspire to in the future for both financial and non-financial reasons.

9 POLICY IMPLICATIONS AND FUTURE RESEARCH DIRECTIONS

9.1 Introduction

In this chapter we link key research findings with policy implications. Where we feel that these findings are particularly significant, specific policy proposals are presented for scrutiny and possible consideration in the policy community. A feature of the discussion is an attempt to weave the quantitative and qualitative research findings into the policy analysis. In some cases the two strands of research are complementary; at other points in the discussion the quantitative and qualitative research help to broaden the policy implications by indicating a more 'whole of government' approach.

The chapter begins with a discussion of key findings and policy implications and is followed by a listing of future directions for research. This discussion of future directions for research concludes the final research paper.

9.2 Key findings and policy implications

There are multiple ways in which HA can impact on the economic participation rates of recipients. We group our key findings and their policy implications under five headings, each representing different pathways through which economic participation can be impacted.

9.2.1 *Non-financial barriers to paid work*

Qualitative research findings indicate that recipients consider both the financial returns from working as well as the potential social benefits for themselves and their families. However, any financial gains are weighed against the costs of working (in time and stress, as well as money) and whether there will be an improvement to the overall wellbeing of their families. Among women, values and beliefs about being a good mother are important in this respect. The motivation generated by financial incentives can then be ineffective because of resistance, particularly among women with children, to taking on uncertain, episodic and low paid work which gives little or no financial return and which makes parenting more difficult. Many women also prefer to engage in unpaid voluntary work which can be combined with their parenting role and which they see as an undervalued contribution to local communities (Chapter 8).¹²⁰ These attitudes could well be a key reason why our quantitative research finds that female labour market behaviour is (relative to males) less responsive to financial variables. This gender difference is a particularly strong finding that has been corroborated across data sets (e.g. SIHC AND HILDA) and using different methods that include the alternative modelling approaches reported in Chapters 2 and 6.

Examination of the long-run changes in the socioeconomic and demographic composition of HA recipients hints at the presence of non-financial barriers to employment. Most noticeable has been a large increase in the incidence of public housing tenants on DSP, and in the number of female sole parents in public housing (Chapter 2). The qualitative evidence (Chapter 8) confirms that the main barriers include:

- The health of recipients, in particular mental health issues (depression, anxiety), and, among women, caring for children, with strong views about caring for their

¹²⁰ Typical activities here include driving disabled people, volunteering at their children's schools in various capacities and running groups for churches and voluntary organisations.

children into school years, allied with logistical and other problems of combining paid work and caring. Greater targeting to people with physical and mental health issues will require effective coordination between housing agencies, employment services and (mental) health services to improve employment outcomes.

- Single parents with children will be highly resistant to entering paid work if they think that this will negatively affect their children and are concerned that the jobs available to them do not fit with caring responsibilities. Offering support to assist sole parents with the demanding logistics of childcare is critically important for this group, and as many have interrupted work careers and report low self-esteem, help in updating skills and preparing for employment could also be important.
- Where people live is important as many HA recipients do not drive/own a car and are dependent on public transport. Place also matters in terms of the logistics of working and caring and managing health conditions, whether there is sufficient stability to consider work, and stigma of living in an area which may affect capacity to enter paid work. Improving the spatial outcomes of HA could require a more geographically sensitive CRA formula, and selling down social housing assets which are poorly located and reinvesting in appropriate locations. Housing agencies could also work with local government and others to improve public transport to areas of social housing.

The quantitative evidence documents that HA recipients have low levels of educational achievement and the jobs they can get are often low skilled and low paid (Chapter 4). Our in-depth interviews reveal that better levels of education and training is the main change that HA recipients thought would improve their capacity to engage in paid work in the future (Chapter 8). However, we find on studying different types of MOAs selected by HA recipients, that education and training delivers inferior employment outcomes as compared to the outcomes of those electing to receive employment assistance (help with preparation of resumes, job search, interviews and so on). This could be due to the inappropriate type of education and training on offer (Chapter 7).¹²¹ A possibly more productive approach is to combine HA with targeted scholarship arrangements (funded from education budgets) for recipients to complete school and/or move on to TAFE and other qualifications. Furthermore, the Home Credit Fund proposed below (see Section 9.2.2) could be extended to meet approved educational and training expenses.

9.2.2 Housing Assistance and work incentives

We do find that clients of HA programs are more likely to be caught in poverty and unemployment traps as compared to clients of other income support programs (ISPs), and this is particularly evident among female sole parents. The financial rewards from work are relatively low because HA recipients have characteristics (e.g. relatively low levels of human capital) that make them more prone to poverty and unemployment traps (Chapter 4). However, HA programs themselves are not a main cause of this outcome, and changes to Commonwealth government pensions, allowances and tax provisions are required to achieve a significant impact on work incentives (Chapters 4 and 5).

CRA in particular has a relatively small effect on work incentives. This is because reforms introduced in 1987 eliminated the stacking of CRA and other income support programs, so that CRA is only withdrawn once entitlement to the underlying ISP (that

¹²¹ The employment benefits from education and training may take longer to emerge and might not be detected if the sample timeframe is short. However, the analysis reported in Chapter 7 tracks MOA participants' employment profiles for an average 2.2 years following completion of MOAs, and therefore allows for lagged impacts.

acts as a 'passport' to CRA) has been withdrawn. This was an important reform in the present context as it prevents CRA from impacting on low wage earners' work incentives to any significant degree, though there will be marginally blunter work incentives higher up the wage distribution (Chapter 4). There are ways that CRA could be reformed and used to improve the functioning of labour markets. Labour mobility issues can be addressed by introducing supplements to CRA entitlements conditional on unwaged recipients moving in order to take up a job offer. A similar program in the US uses housing vouchers to help break up concentrations of the poor by making them conditional on moves out of low-income typically inner city suburbs, though assistance such as relocation counselling is also offered as it may be hard for people to move. But the case for reform to CRA in order to promote employment outcomes is not compelling (Chapter 5).

The case for reform to public housing rent rebate formulae is stronger because income related rent increases do accompany withdrawal of income support from allowances (such as Newstart) and pensions (such as DSP). If the link between rents and assessable incomes was cut, there would be a non-trivial improvement in the financial rewards to marginal increases in work hours, and transitions into employment (Chapter 4). SHAs have responded by introducing changes to formulae that are designed to sharpen incentives to work. Rent holidays that leave rents unchanged for a period of time following acceptance of a job offer (as in Victoria) aim to encourage the take-up of temporary or casual jobs. In Queensland the SHA sets rents in relation to after-tax income, while Western Australia has a working allowance that exempts a threshold amount of earnings per week from rent calculations. However, microsimulations conducted with respect to the working allowance suggest that impacts on work incentives are marginal at best (Chapter 4). Another alternative would be to set rents at some minimum for all properties of a given size and type, and then adjust rent upwards as income increases above the threshold where entitlement to ISPs is lost. This would then harmonise the withdrawal of public HA with that of CRA, and avoid the multiple stacking of benefits and HA tapers that is a key source of unemployment and poverty traps. However, this proposal would introduce more complex and less transparent rent formulae, and could be very costly in terms of revenue foregone by SHAs.

A potentially more radical reform would involve replacing rebated rents by market rents and extending eligibility for CRA to public housing tenants. Microsimulation estimates using AHURI-3M indicate that the number of working age tenants caught in unemployment traps¹²² is cut by more than half from 110,182 to 44,625. But the estimated effect on employment outcomes is modest.¹²³ Using conventional modelling techniques we estimate that this reform package would lift the employment probability among non-employed male public housing tenants aged 25-64 by 0.9 percentage points from 13.4 per cent to 14.3 per cent. Among non-employed females, employment probability would increase by only 0.5 percentage points from 11 per cent to 11.5 per cent. Our findings indicate that only 2,460 tenants would make the transition into employment following this reform. There is also a trade-off with housing affordability stress because housing cost burdens are typically higher under the proposed reform. Under the existing system, rebated rents are typically 20 per cent of gross income from all sources, and only 5,914 (1.6 per cent) working age public renter households are in housing affordability stress. After the reforms we estimate that rents

¹²² As Chapter 4 explains, we define a person as caught in an unemployment trap if their replacement rate estimate is 75 per cent or higher.

¹²³ The 50 per cent cut in the numbers caught in unemployment traps is impressive but is due to a clustering of tenants just above the 75 per cent threshold. The reduction in the median replacement rate is only 8 percentage points, and this helps to explain the modest employment gain estimates.

net of CRA are typically 29 per cent of gross income from all sources and 128,700 (34 per cent) of working age public renter households would be in housing affordability stress. Thus 122,786 households would find themselves in housing affordability stress as a result of this reform (Chapter 4).

One way of addressing these affordability trade-off concerns is to introduce a more generous CRA program at the same time as it is extended to public housing. The changes could target increased assistance on those groups most likely to experience housing affordability stress as a consequence of this reform package. Further protection might be provided if assessable income based rents were retained for non-working age households in public housing. The move to market rents would improve the financial viability of SHAs, and could also dovetail with other initiatives such as choice based lettings schemes. But such changes might involve large additional Commonwealth government outlays on the CRA program.¹²⁴

9.2.3 Welfare locks among public housing tenants

When our research investigations began, a major focus of attention was public housing rebated rent formulae and work incentives. It has become apparent through the course of our research that an under-rated dimension to the HA and employment relationship is the application of income eligibility rules. Public housing is rationed so that applicants join wait lists provided income eligibility thresholds are satisfied. Once applicants reach the top of wait lists they must continue to satisfy income eligibility rules before an offer of housing will be made. It turns out that, over the years, long wait lists have remained a feature despite tighter income eligibility thresholds. In Western Australia, for example, the successful applicant must typically wait for 10 months before an offer is made. There is then a lengthy investment of time that applicants must make, and as private housing market opportunities have become more expensive, the inducement to enrol and wait has increased. These circumstances cause welfare locks; the threat of abrupt loss of eligibility deters acceptance of job offers and erodes the motivation to search for employment while on wait lists (Chapter 6).

A second important observation is that, once public housing is obtained, there has until recently been security of tenure, and tenants are not evicted simply because their income is above the thresholds that are applied while on wait lists. In Western Australia all those admitted into public housing must satisfy income eligibility thresholds when first offered public housing, yet 17 per cent of those entering since 1999 have incomes that exceed the threshold. This is an important observation because it means that the welfare lock is released once an applicant has made the transition into public housing (Chapter 6).

Our modelling indicates that the welfare lock has sizeable negative impacts on employment outcomes.¹²⁵ This is most evident among males; we estimate on the basis of Western Australian data that employment rates improve by as much as 12 percentage points following the transition of working age males into public housing.¹²⁶

¹²⁴ We are grateful to Jim Davison for suggesting this option.

¹²⁵ These employment impacts are diagnosed on the basis of income data. There may be some understatement of income while on wait lists such that employment effects are exaggerated. However, there is also an incentive to misreport income after transition because rents are income based, so it is unlikely that measurement bias is largely responsible for this finding. Note also that the detection of such large employment effects using income data suggests that understatement is not widespread enough to mask behavioural responses to financial incentives.

¹²⁶ The improvement in female employment rates is much smaller at 5 percentage points. This could well reflect the importance that female parents place on caring for their children, a finding that was particularly strong from our in-depth interviews with recipients of HA (Chapter 8).

There is reason to believe that this gain is largely due to welfare locks, rather than the positive benefits of housing stability, though the latter cannot be entirely discounted and there are US studies that interpret similar findings as due to the stability offered by public housing.¹²⁷ Our findings are also subject to the qualification that they have not been corroborated from other Australian states and data sources. Income eligibility limits differ between jurisdictions and the size of welfare locks will therefore vary. Queensland, for example, has relatively high limits, and as a consequence our findings from Western Australia may not be equally applicable in the 'sunshine state'. But it would seem reasonable to conclude that the more important source of work disincentive effects in public housing is welfare locks rather than income related rent formulae (Chapter 6).

These findings have potentially important ramifications for policy. Firstly, the extension of income eligibility rules by, say, offering fixed term tenancies¹²⁸ that are not renewable unless tenants can be shown to be in 'need' would catch tenants as well as applicants in welfare locks. While fixed term tenancies might be motivated by a desire to meet the urgent needs of applicants on wait lists, they could be counterproductive if they encourage tenants to 'game the rules' in order to renew tenancies. Such concerns might be assuaged by two-tier income eligibility limits, with higher limits for existing tenants that are deliberately designed to reduce their workforce disincentives.¹²⁹ The effectiveness of such an approach is conditional on regular indexing of income limits, but this has not been a feature of SHA policy in the past.

A second policy concern is the existing application of income eligibility rules to wait list applicants that are the current source of welfare lock effects. These could be addressed by the following reform proposals that are similar to an escrow account proposal that was briefly considered in Queensland nearly 20 years ago:¹³⁰

- SHAs apply income eligibility rules when an applicant joins wait lists. Regardless of subsequent income and earnings, applicants admitted onto wait lists receive an offer of public housing, and the lease continues to offer security of tenure.
- Rents continue to be set at 25 per cent of assessable income or according to the more complex formula that adjusts rents once entitlement to ISPs is lost. However, the market rent cap is removed. If tenants secure employment and earnings such that rent formulae result in rents exceeding market rent, this is the amount that they are charged for their public housing dwelling. Our evidence on tenant turnover suggests that length of tenancy is negatively associated with rent paid and so the removal of the market rent cap should increase exit rates from public housing (Dockery et al., 2007b). The following proposal will reinforce this effect.¹³¹
- The rent increment in excess of the market rent is deposited in a Home Credit Fund (HCF) that can be accessed on exit from public housing and used as a

¹²⁷ These studies are reviewed in NRV1 Research Paper 9 (Dockery et al., 2007b).

¹²⁸ In New South Wales and Queensland there is no longer automatic security of tenure. In Queensland, tenants' circumstances are being reviewed every four years. If incomes are above eligibility limits there is no intention to evict, but it is taken as an early signal of improved circumstances and of diminished housing need that will, if sustained, warrant a decision about continued tenure.

¹²⁹ This two-tier income limit system is practice in New South Wales, and is currently being considered in Western Australia. We are grateful to Ian Hafekost, DHW, Western Australia for pointing this out.

¹³⁰ We are grateful to Alan Shaw, Department of Housing, Queensland for pointing this out.

¹³¹ The charging of rents in excess of the market rent could infringe state government tenancy legislation, though the proposal that follows may address this issue.

deposit on home purchase, to meet bonds required by landlords of private rental housing, or for education and training purposes.¹³²

- SHAs could be allowed to retain interest that has accrued on HCF deposits, and used for housing investment to help cut wait lists.

This is a radical set of proposals that offer the promise of improved employment participation as welfare locks are relaxed. There is also the prospect of a higher turnover of housing tenancies as any 'culture of dependence' is addressed by offering incentives that encourage economic independence and offer pathways to the achievement of homeownership.¹³³

There are at least two criticisms of the effectiveness of these proposals. One is that wait lists will become longer because more people stay on wait lists knowing that income eligibility rules are not reapplied. But fears of a blow-out in wait lists may be exaggerated. There will be wait turn applicants who now accept job offers, but who would have rejected those same offers under the old arrangements. The employment boost to incomes will encourage some, if not most, to look for alternatives in private housing markets, keeping their application for public housing 'alive' as an insurance to fall back on if the search for suitable private alternatives is unsuccessful. A second criticism is that removal of the market rent cap will in itself create a work disincentive by increasing EMTRs and replacement rates further up the income distribution. While this is true, our evidence on the work disincentive effects of rent formulae suggests that they are of a small magnitude relative to welfare lock impacts. Furthermore, the increasingly relevant benchmark for comparison is a market rent cap with fixed term tenancies. The evidence in this report would indicate that relaxation of the market rent cap (alongside HCFs) and retention of security of tenure would result in higher rates of labour market participation than a system that retains market rent caps but introduces fixed term tenancies.

The provision of incentives in the form of deposits in HCFs might prove politically unpalatable if seen as discriminatory since it would not benefit low paid workers with incomes that result in below market rents. An alternative is to give all tenants access to a proportion of accumulated rent paid during their tenure, with the accumulated funds being available as a deposit to purchase in the private market or as a discount on the market price of their home in public housing.¹³⁴ Because it is a proportion of the rent paid, the more a tenant works and the higher is their income, the greater are the accumulated funds. The introduction of these incentives would involve a revenue loss to SHAs, though any improvements in labour supply would have an offsetting effect.

These proposals are not a panacea; they cannot alleviate or overcome impediments that are due to location, poor education, ill health and so on. But they do represent a useful addition to governments' array of options in addressing low rates of economic participation among a group where rates of joblessness are at alarmingly high levels.

¹³² A variant on this proposal operates in a way similar to 'rent holidays'. An unwaged tenant who makes a transition into employment has the increment in rent due to higher income deposited in HCFs for a fixed period of, say, one year. If the tenant is still employed after one year, the rent rises to 25 per cent of assessable income. However, there is a risk that such a formula will encourage churning in and out of short-term casual employment.

¹³³ In view of the recent house price boom and rise in mortgage interest rates, this claim is admittedly optimistic. It is more credible if the HCF commits to increase deposits in line with increases in regional house price indices. Building societies in the UK have introduced savings accounts of this kind to facilitate first homebuyer transitions into homeownership.

¹³⁴ We gratefully acknowledge Ian Hafekost for this suggestion.

9.2.4 Welfare dependence among public housing tenants

Welfare dependence is an issue that has been influential in shaping 'welfare to work' reforms. The idea is that welfare recipients are less likely to exit 'welfare rolls' the longer they have spent on welfare (Chapter 6). The long-term receipt of income support is believed to stifle initiative and erode self-confidence while skills and workplace knowledge depreciate, the latter effects making it increasingly difficult to re-enter the workforce (Chapter 8).

This idea is of questionable relevance in the context of public housing. The qualitative research indicates that many HA recipients have had unstable and fractured family, employment and housing histories, so that security of housing is often of particular importance. Evidence is mixed on whether housing stability facilitates participation in employment, but it does seem to have a positive impact on children's development (Chapter 8).

The quantitative research reveals that exit rates from public housing are higher among the employed with earnings that are high relative to other employed tenants, and higher than the exit rates of unwaged tenants. This is suggestive of a negative relationship between economic independence and the length of residence in public housing. However, there are other variables that play an important role in shaping exit rates. Single individuals and sole parents tend to have longer spells in public housing compared to couples. The presence of additional children and a higher market rent are also associated with a lower likelihood of exiting public housing (Chapter 6). The qualitative research indicated that tenants had left or were considering leaving public housing primarily because of concerns about safety and security. Safety was a particular issue for those who were NILF and were at home during the day, particularly for single mothers. Some tenants reported leaving because of the stigma attached to living in public housing and/or the area (Chapter 8).

9.2.5 Demographic change and employment outcomes among HA recipients

With growing numbers of single women having children and a historically high divorce rate, the number and incidence of female sole parents has 'shot up' over the last 20 to 30 years. Public HA is of increasing importance for this demographic as the incidence of female sole parents in public housing grew substantially from 25 per cent to 40 per cent between 1982 and 2002 (Chapter 4). Though unemployment and poverty traps are particularly severe among this group, the qualitative evidence indicates that female sole parents consider a variety of factors when considering paid work, though their over-riding concern is the welfare of their children. An important contributor to overall welfare is safety and security of housing and its environment including, but not restricted to, security of tenure. Safety of the neighbourhood is also particularly important for single women with children (Chapter 8).

A second potentially important demographic change is increasingly positive assortative partnering among Australian couples, that is, partners increasingly share the same characteristics and traits. Thus we find that between 1982 and 2002 Australian males (females) with relatively low (high) earnings potential became more likely to partner those who also have relatively low (high) earnings potential. Employment polarisation among couples is to be expected in view of this increasingly positive assortative partnering. It is likely to be aggravated by unemployment traps that are particularly severe if a partner is economically inactive. The observation is relevant in the current context because positive assortative partnering is particularly evident among public housing tenants, and there is a strong correlation with growth in the number and incidence of jobless households in this tenure. In 1982 just over a half of working age public housing households were jobless, but this increased to more

then two-thirds (71 per cent) by 2002 (Chapter 4). Joblessness in households, particularly those with children, is a serious concern because of potentially negative impacts on these children, given the high correlation between joblessness, poverty, educational attainment and other outcomes of traditional concern from a social policy perspective.

The qualitative (see Chapter 8) and quantitative evidence (see NRV1 Research Paper 4, Kelly et al., 2005) show that many HA recipients have experienced considerable instability in their family arrangements since childhood. The partnering, dissolution and re-partnering that are characteristic of instability is shaped by many factors, including abuse as children, domestic violence, and employment and housing instability. There are then complex interrelationships that govern partnering arrangements. We do not have a wealth of evidence on how assortative partnering and social mix in communities help shape employment outcomes, and the role that HA might play in these complex relationships, but the correlations between positive assortative partnering and jobless households are a warning that spatial concentrations of new social housing investments could have detrimental impacts on subsequent rates of economic participation. This is an issue where policy recommendations lack a firm evidence base and would therefore benefit from further research, a topic that we now address.

9.3 Future directions for research

Research can reveal unexpected relationships, as well as confirming a priori hypotheses that have been thoroughly rehearsed in policy discussions. Both are valuable contributions to knowledge, aid our understanding of the costs and benefits associated with policy options and can prompt new policy proposals. The most unexpected finding from NRV1 is the large improvement in male employment participation rates as tenants make transitions from wait lists into public housing. The evidence suggests that this is more likely due to welfare locks than the security and stability attributes offered by public housing. Importantly, these findings and their interpretation have not been replicated on an Australia-wide basis. Furthermore, attributing employment gains to welfare lock effects conflicts with the evidence from some US studies that purport to show that public housing boosts employment outcomes because of security of tenure and stability effects. Validating these findings across Australian states and experimenting with alternative methods of diagnosing their cause should be an important item on future housing research agendas.

Our in-depth interviews suggested that 'place' related factors are influential in shaping employment outcomes. The microdata sets employed in NRV1 did not facilitate the rigorous investigations they perhaps deserved. There are two particular areas of research that are worthy of further investigation:

- One of the potentially important dimensions of the linkages between housing and labour markets is location and the influence of spatial factors in shaping employment outcomes. The Australian Institute of Health and Welfare conduct a National Social Housing Survey each year, with a sample of 15,000 tenants. It has location and satisfaction variables that include access to childcare, public transport and so on. Unfortunately it seems to have no income and income by source information that would allow parallel investigation of the role of HA, or Commonwealth government tax and benefit variables. It also has basic demographic and labour force status variables, but no human capital variables. So the data base may be useful to the measurement of correlations between location variables and employment outcomes, but there would be numerous omitted variables that could not be controlled for and would be a potential source of bias if not addressed by robust statistical methods.

- The indirect role that HA programs may play in affecting labour market outcomes through their impact on mobility is an important area of ongoing research. In the UK, for example, there is evidence that public housing tenants are less mobile and exhibit higher rates of unemployment (Flatau et al., 2004, p. 5). In the US, a number of large-scale social experiments have been conducted to assess the role of mobility on labour market related outcomes for HA recipients. In recent work, Fry, Mihajilo and Wood (2007) have found that inter-region moves by younger Victorians are typically from cheaper to more expensive regional housing markets, but that the propensity to make such moves is impeded once house price differentials reach a critical level. This is prima facie evidence that labour market efficiency is negatively impacted by widening house price differentials. But it is not compelling evidence warranting a policy response. Employers may be experiencing little difficulty in filling vacancies regardless of impediments to regional labour mobility. Housing affordability and metropolitan labour market outcomes have been explored elsewhere (Yates, Randolph and Holloway, 2006), but the regional dimension to this issue has been neglected.

The polarisation of employment has challenged the minds of a number of academics who have observed the simultaneous/synchronised increase in the number of jobless and job rich couples. We have some evidence that positive assortative partnering increased between 1982 and 2002, which is consistent with this polarisation. Part of the explanation is that unemployment traps are much more likely to affect a partnered person if they have an unwaged partner, and both partners have low permanent earnings. We have demonstrated this using replacement rates (NRV1 Research Paper 4, Kelly et al., 2005). An increasing tendency for persons with low (high) earnings potential to partner with persons sharing similar traits, including earnings potential, could then be contributing to employment polarisation. But we have not quantified this contribution by measuring how financial work incentives are affected by stronger positive assortative partnering. If the measured impact is large, this issue deserves attention from policy makers, and the factors causing strong positive assortative partnering become an important item on research agendas. These factors could include public housing and any contribution it makes to growing income segregation in our communities (a research question currently being addressed by AHURI researchers¹³⁵). There are serious gaps in the evidence base that need to be filled before serious policy recommendations can be advanced in this area.

Researchers are invariably keen to explore the use of new methods of analysis. NRV1 has sought to apply both quantitative and qualitative methods in a complementary fashion. There is at least one aspect of this exercise where there is further scope for innovation. In-depth interviews are costly to conduct, and so qualitative research tends to offer a snapshot picture of subjects at one point in time. Given the richness of the information yielded by qualitative research, it is tempting to advocate follow-up interviews with the same panel of subjects to obtain a dynamic picture of how attitudes and perceptions evolve as HA recipients' housing pathways evolve. Are the value, beliefs and perceptions that have been revealed in this study static? Do, for example, the attitudes of mothers change as their children enter school or leave the family home? Do mothers and sole parents in particular who expressed a desire to enter the workforce when their children are older experience difficulties in finding jobs? We were fortunate to be able to assemble and use panel data sets for longitudinal quantitative research in NRV1. It would be helpful and potentially insightful to explore evolving values, attitudes and perceptions employing longitudinal qualitative data.

¹³⁵ The research project, entitled *Housing and income inequalities in the city* (project 50382), was commissioned in 2007.

There is a second methodological innovation that might be worthy of wider use by Australian housing researchers. NRV1 has used a number of quasi-experimental study designs (see Chapters 6 and 7). These rely on detailed knowledge of the institutional context to frame samples that facilitate robust measurement of the strength and direction of causal mechanisms. Quasi-experimental methods can never reproduce the ideal 'laboratory type conditions' that randomised social experiments are capable of achieving, but they could prove a fruitful addition to the tools of analysis available to Australian researchers.

This is an incomplete list of research questions and approaches that are worthy of attention. There will be emerging issues that cannot be anticipated at the time of writing. There are issues that are neglected because of unintended biases in the research approach of the author(s) that are the product of research training and background. There is, however, one lesson that the director of this venture believes is worth stressing. A three year program of research with intensive examination of research issues can deliver a rich stream of analyses that can be mined to underpin strong policy recommendations. It is to be hoped that AHURI continues to 'roll out' new National Research Ventures, and that this report helps to justify perseverance with them.

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APPENDICES

Appendix 1: Eligibility for CRA

Table A1: CRA eligibility rules, 1982-2002

<i>Period</i>	<i>CRA eligibility rules</i>
December 1982	CRA applied to age, invalid and widow's pensioners (the original target groups) plus supporting parent beneficiaries and long-term sickness beneficiaries.
May 1986	Extension of eligibility to unemployment beneficiaries over 25 and those in receipt of special benefit (initially subject to a 26 week waiting period)
June 1987	Waiting period for payment removed for beneficiaries with dependent children.
December 1987	Extension of eligibility to working families with dependent children in receipt of Family Allowance Supplement
December 1987	Remaining public tenants (under grandfathering provisions) made ineligible
March 1992	16/17 year old homeless youth in receipt of a Department of Social Security payment
January 1997	Nursing home residents on age pensions received a Residential Care Allowance rather than RA
July 1997	Maximum rate for singles in shared households capped at two-thirds of the maximum single rate.
January 1998	Sub-tenants in public housing made ineligible for RA unless the SHA was notified of the tenancy and market rent paid

Source: Hulse (2002)

Appendix 2: NRV1 research output

All NRV1 research output can be found on the AHURI website at http://www.ahuri.edu.au/nrv/nrv1/NRV1_docs.html.

Table A2: NRV1 research output

<i>Research output</i>	<i>Year</i>	<i>Title</i>	<i>Researchers</i>
Research Paper 1	2005	Housing Assistance programs and their contribution to poverty and unemployment traps	Gavin Wood Rachel Ong Mike Dockery Paul Flatau
Research Paper 2	2005	An audit of Australian and overseas policy initiatives that are designed to promote both housing policy and economic participation goals	Tony Dalton Rachel Ong
Research Paper 3	2005	An audit of alternative panel data sets suitable for the analysis of Housing Assistance and economic participation outcomes	Heath Spong Rachel Ong
Research Paper 4	2005	A detailed profiling of Housing Assistance recipients relative to benchmark groups in the Australian population	Simon Kelly Rachel Ong Gavin Wood
Stage 1 Report	2005	Housing Assistance and economic participation	Gavin Wood Rachel Ong
Research Paper 5	2007	What has determined longer run trends in public housing tenants' employment participation 1982-2002?	Gavin Wood Rachel Ong Mike Dockery
Research Paper 6	2008	Econometric modelling of housing assistance and labour market participation	Stephen Whelan Rachel Ong
Research Paper 7	2008	Home life, work and housing decisions: a qualitative analysis	Kath Hulse Lise Saugeres
Research Paper 8	2008	The impact of housing assistance on the employment and wage outcomes of labour market program participants	Simon Feeny Rachel Ong Heath Spong Gavin Wood
Research Paper 9	2008	The relationship between public housing wait lists, public housing tenure and labour market outcomes	Mike Dockery Rachel Ong Stephen Whelan Gavin Wood

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