



## Working but Poor? Low Pay and Poverty in Australia

**Author/Contributor:**

Eardley, Tony

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# **WORKING BUT POOR?**

## **LOW PAY AND POVERTY IN AUSTRALIA**

by Tony Eardley

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Tony Eardley  
Editor

## **Abstract**

There has been talk of a new phenomenon of 'working poverty' in Australia, whereby the levels and concentration of low pay are combining to see incomes in a significant number of households fall below the poverty line even where family members are in paid employment. The links between individual low pay and family poverty, however, are complex.

This paper uses ABS survey data to examine the growth of working poverty in Australia from the beginning of the 1980s to the mid-1990s. The analysis shows that low pay on an hourly basis does not in itself equal poverty, and the biggest increase in family poverty has been among employees not in low pay. Yet the proportion of low-paid workers who are also in poor families has grown to about one in five. It is not only a question of part-time or casual work. Poverty amongst those in full-year, full-time work seems also to have risen significantly, with a particular increase amongst single person households.

In the light of these findings, the paper discusses the policy implications, including the possible impact of recent calls for a freeze on minimum wages in order to stimulate employment growth.



# 1 Introduction

To be in paid work but poor used to be a contradiction in terms in what Castles (1985) has described as Australia's postwar 'wage earners' welfare state'. Centralised wage fixing and arbitration, with help for lower paid workers through awards by the Industrial Relations Commission, have to a large extent protected families with a wage earner from poverty. Thus in the early 1970s, the Commission of Inquiry into Poverty estimated that less than two per cent of families with an adult in full-time employment could be described as poor (Burbidge, 1981). Rather, poverty was mainly a problem for those who could not get waged work.

In the 1990s, however, it is becoming increasingly clear that having employment is in itself no longer a guarantee of staying out of poverty. Changes in the structure of employment and growing inequalities in the distribution of wages seem to be nudging Australia in the direction of a US-style population of 'working poor'. If this is the case, it presents a distinct challenge for social and economic policy in Australia. Working poverty has long been a serious social problem in the USA (Bane and Ellwood, 1989; O'Connor and Smeeding, 1993) and to a lesser extent in the UK (Flanagan, 1996; Webb, Kemp and Millar, 1996). It is also a problem for which there are no simple policy answers once it becomes established, as the US experience shows (Myles, 1997).

The ACTU's Living Wage claims have attempted to put working poverty on the public agenda by expressly linking the question of low pay with that of household deprivation (Buchanan and Watson, 1997; Harcourt, 1997). Grassroots social service agencies like the Brotherhood of St Laurence have also been reporting on the increasing difficulties experienced by low-waged workers with whom they have direct contact (MacDonald, 1998; Taylor and Challen, 1998).

An alternative view is that wage increases at the lower end of the distribution tend to discourage job creation (Dawkins, 1997, 1998). This view has been given a high profile restatement most recently in a letter to the Prime Minister by a prominent group of economists (Dawkins et al., 1998), who call for a freeze on award wages as a means of reducing unemployment, with those affected being compensated through tax

credits, or, more comprehensively, a negative income tax which would replace most social security payments.

There are differing views amongst labour market economists about whether freezing wages at the lower end of the distribution would actually have the impact on unemployment which is claimed. Gregory (1998), for example, has argued that to achieve a significant reduction in employment would require very substantial falls in minimum wages, which would be likely both to undermine the role of the Industrial Relations Commission and to exert downward pressure on levels of social security payments.

This question aside, such proposals raise important questions about the relationship between low pay and poverty at the family or household level, and about the most effective ways of combining job creation with the protection of low wage earners. Clearly not all low-paid workers are family breadwinners or live in low-income households, while some higher paid workers with a number of dependants can still end up in poverty if they are the only earners. The links between individual earnings and family income status are complex. In spite of the ACTU's efforts to revisit the Harvester judgement in the Living Wage Case, it seems unlikely that we will see a return to wage setting based on a 'family wage' assessment of workers' needs (Hancock, 1997). Yet if Australia already has a growing problem of working poverty which the current tax and social security system has been unable to hold in check, we need to have a clear understanding of the consequences of letting the wage gap widen still further.

This paper attempts to contribute to the debate by tracing the links between individual low pay and family poverty, and looking at how the relationship has changed since the early 1980s. It considers what has been happening to wages and the distribution of earnings among households in Australia, whether more people are receiving low pay - and if so who they are - and to what extent individual low pay equates to poverty amongst families. In the light of findings suggesting that the phenomenon of working poverty is real and is growing, the paper concludes with a brief discussion of what sort of policy responses might be appropriate.

## **2 What Do We Mean by 'Working Poverty'?**

Measuring change in levels of working poverty depends, of course, on what we mean by it. The conceptual ambiguities inherent in the term are discussed in more detail in earlier work from this project (Eardley, 1997). The central issue is whether it is seen as a question of individual earnings or of total family income. Secondly, there is a problem of what constitutes 'working' now that an increasing proportion of the work force is employed part time, casually or on fixed-term contracts. Many earlier estimates of poverty amongst those in work have taken the full-year, full-time worker as the norm for (for example, Burbidge, 1981; O'Connor and Smeeding, 1993; Saunders, 1994), but it is arguable that this group is no longer sufficiently representative of the work force as a whole.

Thirdly, the measurement of poverty is in itself controversial. The analysis reported in this paper uses the Henderson Poverty Line (HPL) as the main poverty standard. The Henderson methodology has been the subject of some criticism in recent years, mainly on the grounds that the updating methods and formulae have tended to produce an upward creep in the poverty lines over time relative to incomes as a whole (see Saunders, 1996, 1998 for a discussion of this and other criticisms of the HPL). In spite of its limitations, however, the HPL remains the most broadly accepted measure of income poverty in Australia at present. Even if there has been some slight rise in the poverty line since the 1970s, examination of the estimates produced by the Melbourne Institute for Applied Economic and Social Research (MIAESR, various dates) makes it hard to claim that the HPL has moved much beyond being a fairly austere standard for contemporary Australia.<sup>1</sup>

Perhaps more telling limitations of the analysis presented below are that it draws mainly on one source of data, the ABS Survey of Income and Housing Costs (SIHC), and is restricted to a simple income poverty rate measure, which does not take into account poverty gaps, or other factors such as non-cash benefits and services. In terms of methodology, it should also be noted that sample sizes for the SIHC from 1994-95 onwards are relatively small, so sub-sample analyses are vulnerable to

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1 For example, in December 1997, a couple with two dependent children (the 'reference family') and a head in the work force would be considered to be poor by this standard if their total net income, before they had met their housing costs, was less than \$464.13 per week.



substantial sampling errors. Finally, although time series data are presented, it remains a static analysis. We know from other countries that there is considerable mobility in pay over time and substantial movement in and out of work, especially at the low end of the earnings distribution (see, for example, Gosling et al., 1997, on the UK). The extent to which individuals remain in or return to both low pay and poverty clearly has important implications for policy, but at present in Australia we lack the longitudinal data necessary to understand these dynamics fully.

Before presenting the analysis, the paper summarises other background evidence on the factors which might be driving, or mitigating, an increase in working poverty in recent years, including wage dispersion, changes in the distribution of work and the impact of taxes and social security on family incomes.

### **3 Background**

There is little doubt that the last two decades have seen greater inequality in the distribution of market earnings (Borland, 1997). The Government/ACTU Accord in the 1980s led to a fall in real wages at the lower end, which contributed to a widening of the gap between low and high incomes. Although wages at the bottom end have risen again since the end of the Accord, the subsequent shift towards enterprise bargaining and individual agreements has continued the process of wage dispersal. Since 1993, people in the top quartile of pay outcomes under enterprise agreements have received annual increases of at least five per cent, whereas those in the bottom quartile have received only two to three per cent on average (Department of Workplace Relations, 1998). The lowest paid, of course, tend to rely on minimum Federal or State awards. During the 1970s, these moved more or less in line with the Henderson poverty line for the 'reference' family of four, but in the 1980s they began to fall below it (ACOSS, 1997). Greater inequality in wages has also been caused by shifts in the type of work available, with job growth concentrated in lower paid areas such as private sector services (Bell, 1998).

Family income, however, is determined not only by the primary earnings of individuals but also by family composition and the number of earners.

Women's participation in paid work has grown substantially in recent decades. In 1970, their participation rate was around 40 per cent overall and 35 per cent for married women (ABS, 1986). About 73 per cent of all women in paid work had full-time jobs, dropping to 64 per cent for married women. Eighty three per cent of men were in the work force and 97 per cent of those with jobs worked full time. Currently, just under 54 per cent of all women are in the work force and the rate for married women is slightly higher, at 55 per cent (ABS, 1998a). (There are some recent signs of a fall in participation by women with children, which has been attributed to changes in child care provision and assistance, though it is too early to tell how significant this is).

Much of the increase for women has come in part-time work, so that only about 57 per cent of all women workers and 54 per cent of all married women are now in full-time jobs. Meanwhile men's participation has dropped to 73 per cent and their rate of full-time employment to 88 per cent. There is still only a small minority of men working part time, but the proportionate increase in the rate of part-time employment has actually been greater for men than for women over the last decade. The effect of these changes on household earnings distributions is complex, but it seems clear that there has been a degree of polarisation, through an increase in both dual-earner families and in families with only a part-time earner (or no earner at all). In addition, Probert (1997) has pointed out that the opportunities for women have not expanded evenly across socio-economic groups, leading to growing polarisation of opportunities between women in and out of the labour force.

Taxes and social security benefits also have a major impact on family income. Part of the trade-off negotiated under the Accord in return for wage moderation was an increase in the social wage. Benefits targeted on families with children were boosted in the late 1980s, because of a recognition that child poverty had been on the increase, and family payments continued to expand in the early 1990s. The net effect has been largely to maintain lower paid working families' disposable incomes in real terms, but without moderating the gains in market earnings achieved by higher paid families (Landt and Beer, 1998).

Some commentators have assumed that working families receiving the higher rate of means-tested family allowance are by definition 'working

poor' (eg. Birrell, Maher and Rapson, 1997). I have argued elsewhere (Eardley, 1997) that receiving a means-tested supplement is not an automatic sign that the recipient is poor, especially when one of the main reasons for the existence of the payment is to alleviate poverty. Much of the growth in the clientele has resulted from expansion in the scope and generosity of payments. Nevertheless, these payments do mainly go to people with incomes well below the average and their increasing significance has to be partly a response to a greater concentration of lower earnings amongst working families.

The evidence does, therefore, point to the possibility of greater working poverty, linked to these changes in the distribution of earnings and the composition of the work force. As a first step in trying to untangle the relationship between low pay and poverty since the early 1980s, the next section therefore examines the trends in individual low pay.

## **4 Trends in Low Pay**

### **Definitions**

There is no straightforward definition of 'low pay'. Wages are both payments for work carried out and a means of subsistence. Pay can therefore be seen as 'low' relative to the work involved or relative to the worker's needs and those of the household in which s/he lives. For comparison over time and with other countries, the measure used here is a relative one, based on an imputed hourly rate calculated as total gross weekly pay divided by the number of hours normally worked each week.

The threshold for low pay is taken as two-thirds of the median hourly rate for all waged workers<sup>2</sup> (see Eardley, 1997, 1998, for further discussion of low pay measurement issues). Unlike some measures used in international comparisons, this one allows us to include both men and women, and full-

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2 This definition of low pay can be seen retrospectively as slightly above the minimum adult wage level (\$9.50 per hour for a 38 hour week) laid down by the Industrial Relations Commission in 1997 (AIRC, 1997). The 1994-95 threshold used here (\$8.65 per hour), for example, represented 52.3 per cent of the mean adult full-time rate in November 1994, while the 1997 safety net ruling represented 50.7 per cent of the equivalent hourly rate in November 1997 (ABS, 1997).

and part-time employees, on an equal basis, in recognition of the changing composition of the labour market (Webb, Kemp and Millar, 1996). It should be noted, however, that it is a measure which is sensitive to the particular shape of different national earnings distributions. As the analysis below shows, the industrial relations system in Australia has produced a wage profile where a large proportion of hourly pay rates are bunched in an area close to the median and a relatively small proportion are below the two-thirds threshold. This means that the number of respondents falling into the low pay category in a survey sample is inevitably fairly small, thus limiting the level of sub-group analysis possible.<sup>3</sup>

Using a single low pay threshold also risks the problem of what Gosling et al. (1997) call ‘wobble’ around the threshold. As the threshold falls just below a dense area of the distribution, small shifts over time in this distribution may have a large effect on the proportion of people on one side or other of the low pay line.

### Low Pay Estimates

Table 1 shows the estimated percentage of men and women in low pay (according to the above definition) between 1981-82 and 1995-96. The unit record files for surveys before 1994-95 only give hours of work within bands, so the mid-point of the relevant band has been used to estimate the hourly rate of pay, while people working for more than 50 hours are assumed to be working exactly 50. Using the actual reported hours for 1994-95 and 1995-96 has the effect of lowering the pay

**Table 1: Individuals<sup>(a)</sup> with Low Pay: 1981-82 to 1995-96**

Year	Low Pay Threshold	Percentage with Low Pay
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3 It has also been necessary to reduce the sample further by excluding a number of employed individuals recorded as having hourly earnings below \$1.00. There are possible reasons why such low recorded rates of pay might be real, but analysis of the 1994-95 and 1995-96 SIHC unit records has revealed an unusually large number of respondents with zero incomes. This is being investigated in order to establish whether it is an artefact of the new method of continuous data collection introduced from 1994-95 or whether it represents a real change. For the purposes of comparison with earlier years it seems safer at this stage to exclude these cases.

	(2/3 median hourly rate <sup>(b)</sup> )	Men	Women	Persons
1981-82 Numbers <sup>(c)</sup>	\$5.33	9.8 303 000	22.4 429 000	14.6 732 000
1985-86 Numbers	\$6.03	11.8 412 000	17.2 401 000	14.0 813 000
1989-90 Numbers	\$7.78	10.8 402 000	15.9 436 000	13.0 839 000
1994-95 Numbers (Actual hours)	\$8.65 \$8.61	13.1 12.9 512 000	15.5 14.1 466 000	14.1 13.4 977 000
1995-96 Numbers (Actual hours)	\$8.83 \$8.80	12.7 12.5 485 000	15.8 15.1 493 000	14.1 13.7 977 000

- Notes:
- a) Individuals included are those aged 15-64 (men) and 15-59 (women), receiving current income from employed work. Those identified by their labour force status as self-employed are excluded, as are those with recorded hourly pay rates of less than \$1.00.
  - b) Hourly pay rates are based on current gross weekly earnings from first and second jobs, divided by total hours normally worked in first and second job. For 1981-82 to 1989-90 these are defined only by mid-points in hours bands, as before 1994-95 actual hours were not available.
  - c) Numbers are weighted and rounded to the nearest thousand.

Source: ABS Surveys of Income and Housing Costs, unit record files

threshold slightly compared with that derived from the mid-point of hour bands, and reduces the overall rate of low pay by just under half of one percentage point, with a greater reduction for women. It is not possible to tell whether the same effect would have operated in the earlier years.

It is worth noting that this analysis differs in certain ways from a similar exercise carried out by Richardson (1997). She bases her hourly rates for 1989-90 on the average distribution of actual hours within the hour bands in 1994-95. This seems defensible, but not necessarily preferable to using the mid-points, as it does not take into account any changes in patterns of working hours for particular groups in the 1990s. She also deems all those

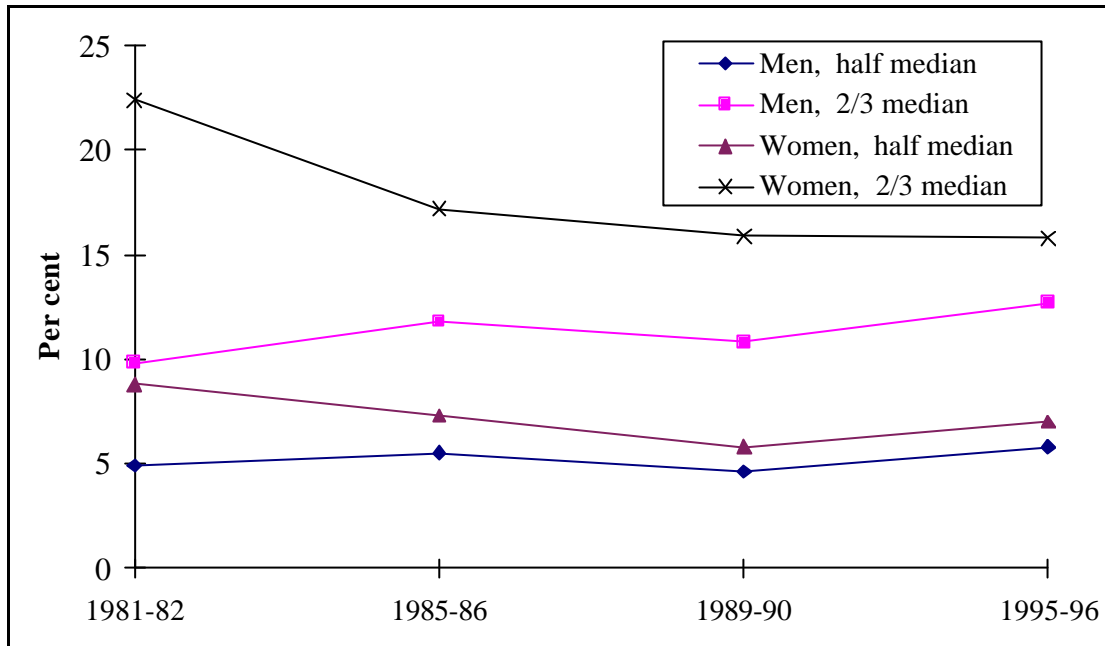
reported as working more than 40 hours per week as actually working 40 hours, on the grounds that there is danger of confusing the problem of very long hours, which produce apparently low hourly rates often as a result of unpaid overtime, with the problem of low wages. Again, there is an argument for this approach, but there is also a case for viewing the low imputed hourly rates produced by extra long hours as none the less real.

Richardson adopts a higher threshold for measuring low pay (\$9.50 for 1990), on the grounds that the focus of interest is not only on those on the lowest levels of pay, but also on the broader group who might be affected by a rise (or fall) in the AIRC safety net awards. She also (as we do below) sets a lower threshold for young people. Her estimate, that around 17 per cent of employees received low wages in 1989-90, is consequently higher than the one presented here. In the end, these differences serve mainly to emphasise that any discussion of low pay is partly a matter of judgement.

Bearing this in mind, and allowing for the effect of sampling errors in the survey, Table 1 indicates that contrary, perhaps, to expectation, there does not seem to have been any substantial percentage change in low pay overall, although the absolute numbers have increased in line with the growing work force. The trends are rather different for men and women, however, as is demonstrated in Figure 1.

The rate for men did not change much in the 1980s, but has been rising steadily in the 1990s, while for women it has been declining, such that their risk of being low paid has more than halved compared to that of men. The absolute number of women with low hourly wages grew because of their increased labour market participation, but men still made up nearly two-thirds of the total increase (from around 730 000 persons in low pay in 1981-82 to almost 980 000 in 1995-96).

Figure 1 also shows the effect of taking a stricter low-pay threshold (50 per cent of the median), as one way of testing the sensitivity of the analysis to the 'wobble' problem referred to above. It suggests that in

**Figure 1: Employees with Low Hourly Earnings: 1981-82 to 1995-96**

Source: ABS Surveys of Income and Housing Costs, unit record files

terms of the overall pattern the results are fairly robust to the actual threshold chosen. There are two main points of difference: first, lowering the threshold leads to a greater reduction in the proportion of women who are low paid than that of men, indicating a narrower dispersion of hourly pay among lower paid women; secondly, on the basis of the 50 per cent threshold, the rate of low pay seems to have been rising in the 1990s for women as well as men.

These results are broadly consistent with OECD analysis of comparative trends in wage inequality, which suggests that despite fluctuations during the latter half of the 1980s, the dispersal of male full-time earnings between the top and bottom deciles was not much greater in Australia in 1990 than in 1985 (OECD, 1996). Since 1990, however, the ratio has been rising steadily. For women working full time the dispersal ratio has been falling slowly but steadily since the mid-1980s. This is a somewhat misleading picture, since women are much more likely to be working part time than men. In spite of the relative improvement in women's hourly rates of pay, the proportion with low levels of *weekly* earnings remains considerably greater than that of men. Part-time work is also increasingly synonymous with casual work. The latter comes with a loading which can make hourly rates higher on paper than those for full-time, non-casual work, which is

one possible reason why women's average hourly rates have increased in parallel with an increase in part-time work.

As significant as gender here, however, is the difference by age. If we look at the prevalence of low pay, according to our definition, among different age groups, we find that it is consistently high among young workers (Table 2). There are no clear patterns of change for other age groups, except that there is some sign of a steady increase among the over-50 year olds. Young workers are a relatively small proportion of the work force, but their high rates of low pay mean that they make up a large proportion of all the low paid. Thus in 1985-86, employees under 21 were 16.8 per cent of all employees but 47.8 per cent of the low paid, while in 1995-96 they were only 10.3 per cent of employees but still 45.1 per cent of the low paid.

**Table 2: Prevalence of Low Pay<sup>(a)</sup> by Age: 1981-82 to 1995-96**

Age	Percentage in Low Pay				
	1981-82 <sup>(b)</sup>	1985-86	1989-90	1994-95	1995-96
Under 21	(71.8)	56.4	52.9	57.5	59.2
21-34	9.0	8.4	7.7	9.8	9.1
35-49	7.8	8.5	9.0	7.9	8.3
50 or over	6.6	8.2	10.2	10.2	10.7
All employees	14.6	14.0	13.0	13.4	13.8

Notes: a) Low pay is as defined in Table 1, based on the mid-point of hour bands

b) In 1981-82 the SIHC grouped ages 20-24, so for this year the 'under 21' category includes only those aged under 20.

Source: ABS Surveys of Income and Housing Costs, unit record files

Australia currently has a system of 'junior' wages payable to people under 21, so we would expect many young people to be earning lower wages than adults. It might therefore be more realistic to apply a junior low-pay threshold to these workers to see what proportion are in low wage work even according to this standard. This analysis is presented in Table 3, using a junior low pay threshold of 52.6 per cent of the adult threshold,



based on the ratio established in the AIRC 1997 wage case ruling. This set a minimum wage of \$5.00 for juniors ( $\$9.50 * 0.526$ ).<sup>4</sup>

Separating out young people from adults has the effect of raising the low pay threshold for the latter, but it still results in a lower rate of adult low pay. The trends for adult men and women remain, however. If anything they are slightly more pronounced, as Figure 2 shows.

One striking aspect of the analysis presented in Table 3 is that the proportion of young people in low pay even on the basis of a junior wage threshold appears to have more than doubled in the 1990s. This would seem to contradict other data which show that average hourly earnings of teenagers have risen slightly since the mid-1980s (Daly et al., 1998). However, the low pay threshold used here is relative to that of adults. Data from the ABS *Weekly Earnings of Employees (Distribution) Australia* survey show that between 1984 and 1997 teenage hourly earnings fell relative to those of adults (Department of Industrial Relations, 1997). Also, the imputed hourly rates calculated above take account of any unpaid overtime, which may have increased for young people over this period.

In the last two decades, the proportion of all those aged 15-19 years not in school or tertiary education but in the labour force dropped from just over half in 1979 to only 28 per cent in 1998 (ABS, Catalogue 6203.0, various dates). This has led to a concentration of disadvantage amongst the shrinking pool of young non-students, which can be observed from the persistently high headline rate of youth unemployment. By contrast, the proportion in education and also in the labour force increased from eight per cent in 1979 to 28 per cent in 1998. Comparison of 1989-90 and 1994-95 SIHC data shows a large increase in part-time work - often with

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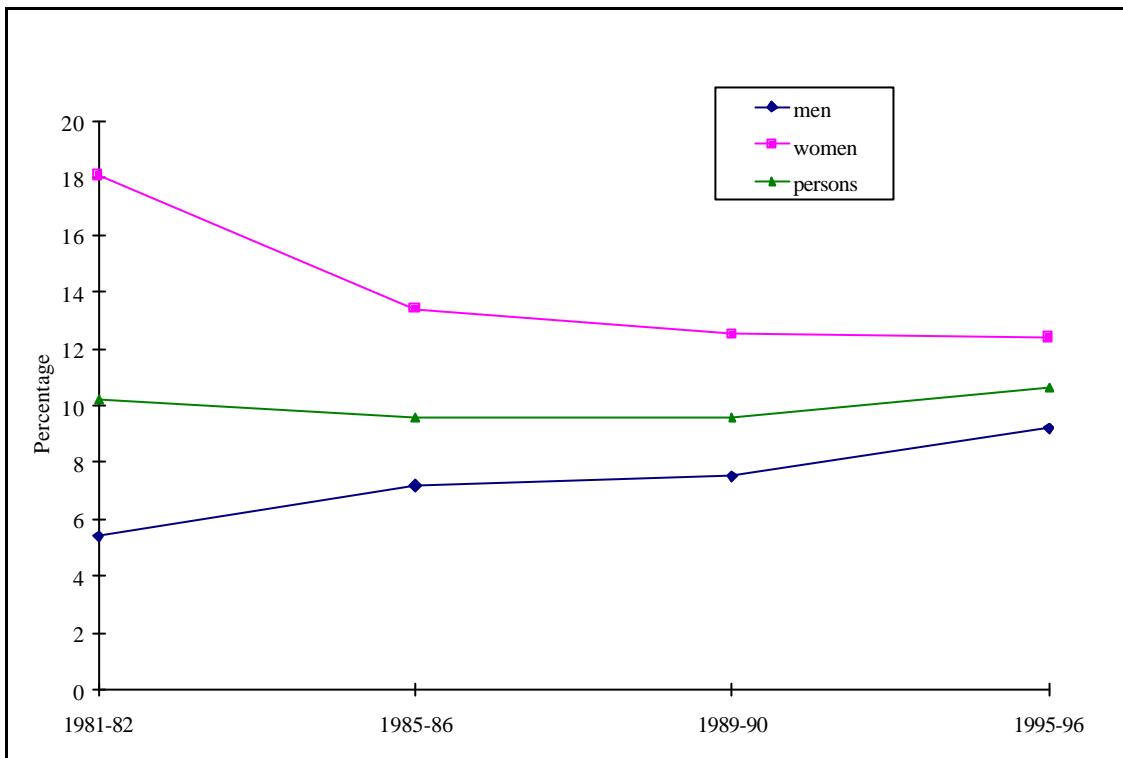
4 Actual junior award rates vary by industry and are set on a sliding scale according to age. In the retail industry, for example, which is a major employer of young people, 16-19 year olds would typically receive 70-90 per cent of the adult rate, depending on their age. However, ABS earnings data show that the overall average ratio of junior full-time ordinary hourly rates to those of adults has generally been closer to the AIRC minimum wage level, fluctuating between 0.48 and 0.53 over the period 1990 to 1996 (ABS, Catalogue 6306.0, various dates).

**Table 3: Adults and Juniors<sup>(a)</sup> with Low Pay: 1981-82 to 1995-96**

Year	Low Pay Threshold 2/3 adult median hourly rate <sup>(b)</sup>	Percentage with Low Pay		
		Men	Women	Persons
1981-82 Numbers <sup>(c)</sup>	\$5.64	5.4 153 000	18.1 304 000	10.2 457 000
1985-86 Numbers	\$6.31	7.2 224 000	13.4 269 000	9.6 493 000
1989-90 Numbers	\$8.00	7.5 252 000	12.5 306 000	9.6 558 000
1994-95 Numbers	\$9.00	9.0 319 000	12.1 322 000	10.3 641 000
1995-96 Numbers	\$9.14	9.2 317 000	12.4 343 000	10.6 660 000
	2/3 adult median hourly rate * 0.526 <sup>(b)</sup>	Juniors (under 21) <sup>(d)</sup>		
1981-82 Numbers	\$2.97	12.6 34 000	9.4 22 000	11.1 56 000
1985-86 Numbers	\$3.32	8.5 32 000	6.6 21 000	7.6 53 000
1989-90 Numbers	\$4.21	6.0 21 000	6.4 19 000	6.2 40 000
1994-95 Numbers	\$4.73	17.2 63 000	9.1 31 000	13.3 94 000
1995-96 Numbers	\$4.81	17.9 63 000	13.3 48 000	15.6 111 000

- Notes: a) Individuals included are those aged 15-64 (men) and 15-59 (women), receiving current income from employed work. Those identified by their labour force status as self-employed are excluded, as are those with recorded hourly pay rates of less than \$1.00.
- b) Hourly pay rates are defined by mid-points in hour bands (see Table 1).
- c) Numbers are weighted and rounded to the nearest thousand.
- d) In 1981-82 the SIHC grouped ages 20-24, so for this year 'Junior' includes those only those aged 15-19 and 'Adult' includes those aged 20 and upwards.

Source: ABS Surveys of Income and Housing Costs, unit record files

**Figure 2: Adult Employees With Low Hourly Earnings: 1981-82 to 1995-96**

Source: ABS Surveys of Income and Housing Costs, unit record files

very short hours - particularly among young men, and disproportionately concentrated among the lowest paid. This suggests a shift in the availability of employment for many young people towards very low-paid, part-time, often casual work, and is clearly also influenced by greater numbers of students accessing part-time work. Other researchers have also found that increased school retention rates among teenagers are associated with declining prospects of full-time employment (Lewis and Koshy, 1998).

Much of the work young people get is in the retail trade. In 1997 this sector accounted for 53 per cent of all teenage employment (up from 38 per cent in 1984). Eighty two per cent of teenage retail employment is part time and 92 per cent of young part-time employees in 1995 were casual (Daly et al., 1998).

As the numbers of young people in the SIHC samples are relatively small - particularly in the new continuous surveys which have smaller overall sample sizes than before - we combined the 1994-95 and 1995-96 samples to look at the position of students, and compared it with that in 1989-90. At the end of the 1980s, 34 per cent of all waged workers under 21 were also in school or tertiary education and students made up 52 per cent of all young low-paid workers. The overall rate of junior low pay was 6.2 per cent, but for students it was higher, at 9.5 per cent. By the mid-1990s, the low pay rate was 18.3 per cent for students and 9.2 per cent for non-students. The overall rate, however, more than doubled (to 14.2 per cent) because the proportion studying and working expanded to 55 per cent and students by then made up 71 per cent of all the young low paid.

Not only is an increasing proportion of young low-paid workers made up primarily of students, but most of them also live with their immediate family or other relatives. In 1994-95 and 1995-96 (combined), nearly 84 per cent of all waged workers aged under 21 lived with relatives, rising to 97 per cent for the young low paid.

The junior low pay threshold adopted is, of course, very low (only \$4.81 per hour in 1995-96), and the growth of low pay amongst the young has not been exclusively amongst students. Flatau and Simpson (1996) have found significant levels of underemployment amongst young non-students around the end of the 1980s: about 75 per cent of those working part time wanted and were looking for full-time work. Nevertheless, in numerical terms it appears that low pay amongst young people is predominantly an issue for those combining education and part-time work. In 1989-90 there were an estimated 40 000 young people who were low paid by our definition, of whom 21 000 were students. By the mid-1990s the overall number had grown to around 99 000 and 70 000 of these were students.

It should also be noted that if we use actual hours in the estimation of hourly pay rather than mid-points of hour bands the effects for youth are larger than the overall effects observed in Table 1. Low pay in 1995-96 drops to 13.3 per cent for young men and 7.3 per cent for young women. This may be a result of the increase in short working hours, which alters the relationship between actual hours of work and those based on the mid-point of the ABS-defined bands.

As was stated earlier, given that wage bargaining in Australia is still in the process of change and both the award and safety net systems still exist, albeit in reduced form, we would not expect huge numbers of people to have wages well below safety net levels. What the above analysis shows is that since by definition half of all employees must have rates no higher than the median, around 40 per cent of adult employees over the observation period had hourly pay rates clustered between two-thirds of the adult median and the median itself, or between \$9.14 and \$13.71 per hour in 1995-96. If we count all employees aged over 15 together, we find just under 27 per cent with hourly wages between two-thirds of the overall median and the median itself (\$8.83 - \$13.24 in 1995-96).

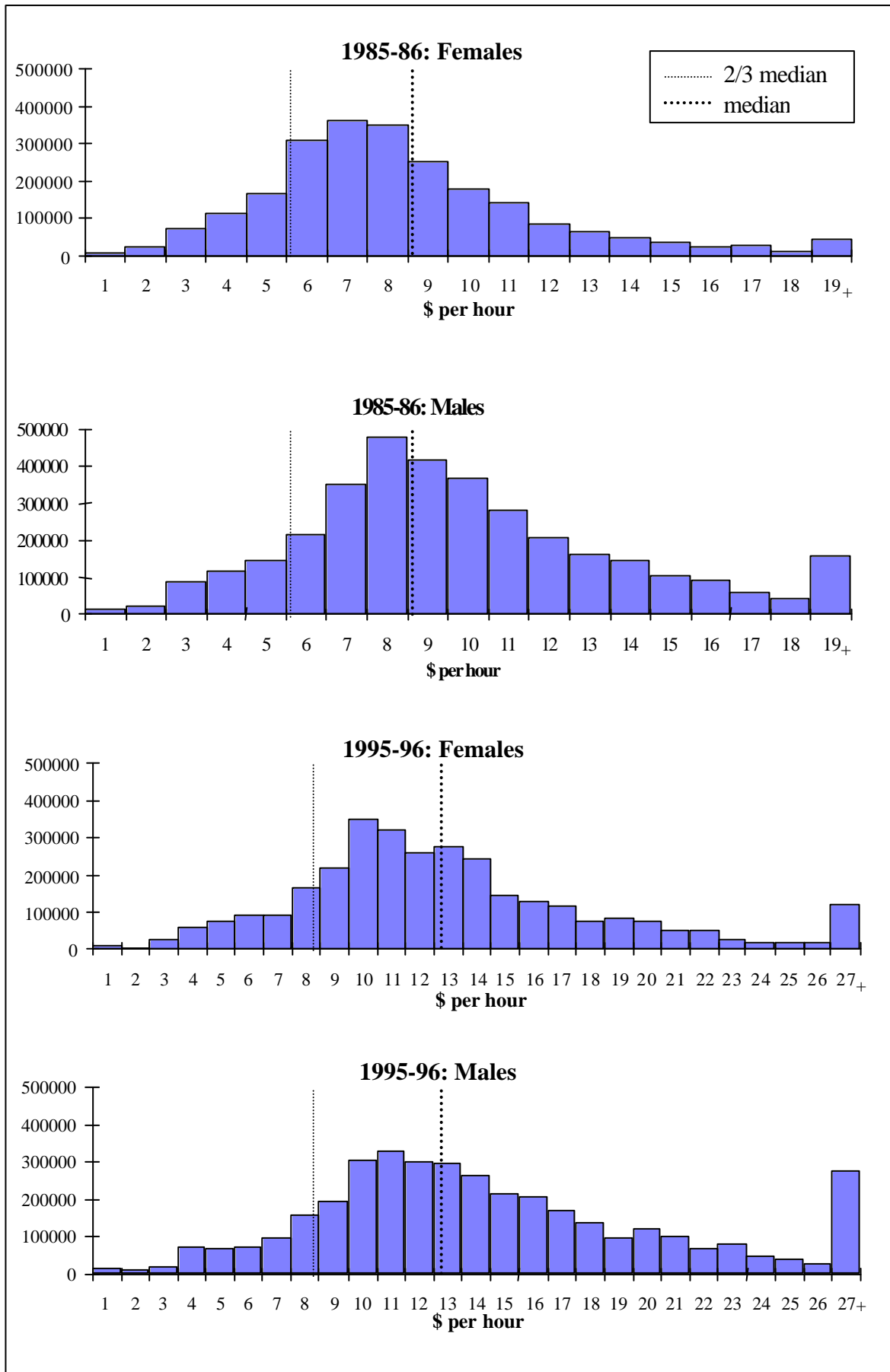
Figure 3 shows the distribution of imputed hourly pay rates in 1985-86 and 1995-96, by sex. In both cases the bunching in the area just below the median can be seen, but the relative improvement in women's pay between the two years is also evident from the movement of large numbers out of the pay band just below two-thirds of the median. The most striking feature of the charts is the increase in the proportion of workers with hourly rates above twice the median (represented by the final column in all charts). This is a graphic representation of the increase in earnings dispersal and has taken place for both men and women. The charts also show that men's pay is distributed somewhat further into the upper pay regions than women's.

It seems then that in spite of the widening earnings gap, Australia has maintained a relatively flat earnings distribution at the lower end, up to the mid-1990s at least. It is worth noting that according to the same threshold as used here, 22 per cent of employees were found to be in low pay in the UK in 1994 (Webb, Kemp and Millar, 1996).<sup>5</sup>

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5 It appears that Webb et al. do not exclude respondents with apparent zero or close to zero hourly pay rates, though this is unlikely to make a large difference. Their sample also only includes employees aged over 16. The two studies are, nevertheless, broadly comparable.

**Figure 3: The Distribution of Hourly Pay Rates: 1985-86 and 1995-96**



Source: ABS Surveys of Incomes and Housing Costs, unit record files.

## **Characteristics of Low-paid Workers**

Aside from gender and age, what are the characteristics of the low paid compared to other employees? Table 4 presents a breakdown by key characteristics for 1981-82 and 1995-96. Some variables are categorised differently in the two surveys, but the table allows us to make some broad comparisons. It shows that low-paid workers are less likely to be or to have been married than other workers, which is not surprising given that a large number are young. Those with few or no qualifications are also more likely to be low paid, as are single employees and working sole parents compared with couples. In terms of changes over time, it is interesting to note that the proportion of the low paid who were in full-time jobs rose between 1981-82 and 1995-96, from just under 60 per cent to nearly two-thirds, even though part-time work itself grew substantially. This may be partly caused by the extra pay loading which comes with casual work, but also reflects the increase in low pay for men, who are more likely to be working full time.

In terms of housing tenure, the low paid are somewhat less likely than higher paid workers to be purchasing a home, although the gap has narrowed somewhat since 1981-82. By 1995-96 the low paid were also proportionately less likely than in the earlier year to be in some 'other' form of accommodation, which includes living rent free with parents or family. Apart from that there was little overall change. One interesting question, however, is whether low-paid single adults live on their own or in larger households. Although for the survey they are counted as separate income units we might expect it to be difficult financially for many to live on their own even if they wished to. Analysis shows that in 1995-96 just over 12 per cent of all adult single person employees were in low pay by our measure. Of these, only 28 per cent lived alone - i.e., in a household consisting of a single income unit.

Part of the change over time in the percentage of employees receiving low pay reflects an industry shift towards lower wage sectors (not shown in Table 4). For example, although the rate of low pay in the retail sector barely changed between 1981-82 and 1995-96, the sector itself more than doubled in size and contributed nearly half of all the extra low-paid workers over this period. The rate of low pay in the 'personal and other

**Table 4: Key Characteristics of Low Paid and Other Employees: 1981-82 and 1995-96**

Year and characteristics <sup>(a)</sup>	Percentages		
	Low Paid	Not Low Paid	All Employees
1981-82			
Marital Status			
Married	53.6	63.3	62.3
Never married	40.4	29.9	30.9
Labour Force Status			
Full-time	59.7	88.5	85.5
Part-time	40.3	11.5	14.5
Highest Qualification:			
None since school	72.9	51.7	53.9
Trade qualification	7.9	18.9	17.3
Degree	3.3	7.8	7.4
Family Type			
Couple with dependants	35.2	39.4	38.9
Couple without dependants	20.1	24.0	23.6
Sole parent	3.4	1.9	2.1
Single person	41.1	34.7	35.3
Tenure			
Owner (outright)	17.9	15.8	16.0
Purchaser	26.4	38.6	37.4
Renter	37.5	37.5	37.5
Other	18.2	8.1	9.1
Place of Birth			
Australia	75.8	74.4	74.5
Europe	18.6	19.8	19.7
Oceania	1.8	1.5	1.5
Other	3.7	4.4	4.3
1995-96			
Marital Status			
Married	52.5	61.9	60.8
Never married	40.5	31.0	32.1
Labour Force Status			
Full-time	66.2	77.7	76.4
Part-time	33.8	22.3	23.6
Highest Qualification			
No qualifications	58.6	46.7	48.0
Skilled vocational qualification	18.4	15.1	18.1
Degree	5.4	12.6	11.8
Family Type			
Couple with dependants	38.2	38.8	38.7
Couple without dependants	21.6	26.0	25.5
Sole parent	4.3	3.2	3.3
Single person	35.9	32.1	32.5
Tenure			
Owner (outright)	24.6	23.5	23.6
Purchaser	28.1	37.6	36.6
Renter	33.9	31.4	31.7
Other	13.4	7.4	8.0
Place of Birth			
Australia	78.0	76.6	76.7
Europe	11.8	14.3	14.1
Oceania	3.2	2.4	2.5
Other	7.0	6.7	6.7

Note: a) Some variables are categorised differently in the two surveys



Source: ABS Surveys of Income and Housing Costs, unit record files

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services' sector actually fell, from 45 to 19 per cent, but the absolute number of low-paid service workers increased by around 25 000. This is because the sector expanded from employing less than one per cent of all workers in 1981-82 to nearly four per cent in 1995-96.

A further important question is how far low pay is a particular problem for migrants and people of non-English-speaking background. This is a matter of some controversy, since there is an argument that a concentrated ethnic 'underclass' is forming in certain areas of Australia's cities (Birrell and Seol, 1998), although other research casts some doubt on this interpretation of the data (Castles et al., 1998). The SIHC itself provides only limited information on ethnicity in a form which is consistent over the various survey dates. Table 4 shows that while employees born overseas but outside Europe are still a small group, they have nearly doubled as a proportion of the working population over this period. Their hourly pay, however, differs little on average from that of employees generally, even though it has apparently deteriorated somewhat. In 1981-82 they represented 5.8 per cent of all employees and 5.5 per cent of the low paid, whereas by 1995-96 they made up 9.2 per cent of employees but 10.2 of the low paid. This is only one part of the picture. More detailed research on this topic indicates that migrants from Asia and Oceania in particular are more likely to have employment, and hence rates of pay, which are below what would be expected from their qualifications and skills (Flatau, Petridis and Woods, 1995).

## **5 Low Pay and Poverty**

The previous section has provided a broad overview of the low pay picture. Although there has been some numerical increase in line with the growth of the work force, there is not much sign of change overall in the proportion of employees with low hourly rates of pay. The overall trend, however, conceals differences in the experiences of men and women, and of younger and older workers.

We now move on to look at the intersection of low pay and poverty. To see how far and in what ways these overlap, we need to locate low-paid

workers in the families where they live.<sup>6</sup> For this purpose two measures of poverty are used: first the Henderson Poverty Line (HPL), and, secondly, HPL plus 10 per cent. The higher threshold serves as a test of sensitivity of the analysis to the poverty line itself. There is also an argument that the community expects wages, plus social security support where appropriate, to provide a standard of living significantly above basic poverty levels (ACOSS, 1997).

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6 The unit of measurement actually used here is the income unit, as defined by ABS. For convenience of style the term 'family' is mainly used in the text, but it should be noted that the two are not quite synonymous.

Table 5 gives an indication of changes in the relationship between low pay and poverty over time. It shows the percentage of individual employees, both full and part time, living in income units with equivalent disposable annual incomes below, or within 10 per cent above, the Henderson Poverty Line, according to whether they were currently receiving low hourly pay rates.

The most striking aspect of this analysis is the large apparent rise in the percentage of young people living in poor families, irrespective of whether they are low paid themselves, especially between the 1989-90 and 1995-96 surveys. Part of the explanation is likely to be that those who are in the labour market and working are counted as income units in their own right even if they are still living with their parents. As we have seen, an increasing proportion of low-income young people are students and the vast majority live with their families. Despite being counted as separate income units, it seems improbable that many could survive on their own incomes alone without some support from their families. For these reasons it is common practice to exclude young people living with their parents from poverty analyses, although that raises further questions about how to treat the households of which they are a part (Saunders and Matheson, 1991).<sup>7</sup>

The data are perhaps more reliable as an indicator of what is happening amongst adults. In 1981-82, the vast majority (nearly 97 per cent) of all

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7 See also Redmond (1998a) for a useful discussion of the consequences of adopting different assumptions about household income sharing for the measurement of income inequality.

employees did not live in income units in Henderson poverty or even close to it. More than one in ten low-paid workers did, and one in seven were close to the poverty line, but still the degree of overlap between individual low pay and family poverty seems to have been small. During this period the overall poverty rate increased steadily, more than doubling amongst waged workers as a whole, but with a slightly smaller increase amongst the low paid. It appears that by the mid-1990s around one in five low-paid adult employees lived in poverty, or over a quarter if we take the higher poverty line.

This is still a long way from saying low pay equals poverty. Clearly for a large majority of employees it does not. Moreover, Table 5 shows that much the biggest increase in family poverty in numerical terms (from around 87 000 in 1981-82 to 327 000 in 1995- 95) took place among those employees who were *not* low paid by our measure.

It should also be noted that the poverty measure used here is based on annual income, while that for low pay is based on current income. Some individuals' pay rates will have changed since the period over which annual income is measured and some will have been out of work for part of the year. Thus it could be argued that Table 5 presents a somewhat misleading picture. Using current income does produce lower estimates of working poverty. In 1989-90, the adult poverty rate drops to 3.4 per cent for all employees, to 15.6 per cent for the low paid and to 2.1 per cent for the non-low paid. Using combined data for 1994-95 and 1995-96, we find that the overall poverty rate falls to 4.2 per cent, and to 18.9 per cent and 2.5 per cent for the low paid and non-low paid, respectively.

Nevertheless, annual income is generally likely to be a more appropriate indicator of poverty. It is also noticeable that using current income makes the poverty rate drop considerably less for the low paid than for the non-low paid, which suggests that the former's overall family income status is more consistent over time than that of higher paid workers.

A further illustration of the complex relationship between individual low pay and family income distribution is given in Table 6. It shows the location of individual low-paid workers (both adults and youth) within the quintile distribution of equivalent income units. Thus in 1989-90, 7.7

**Table 6: Individual Employees by Equivalent Income Unit Quintiles: 1989-90 and 1995-96** (percentage distribution)

Year and Low Pay Status <sup>(b)</sup>	Income Unit Quintiles <sup>(a)</sup>					Total
	1	2	3	4	5	
1989-90						
Low paid	19.8	21.4	23.0	22.1	13.7	100
Not low paid	6.4	13.6	22.1	28.6	29.3	100
All	7.7	14.3	22.1	28.0	27.9	100
Numbers ('000) <sup>(c)</sup>	468	874	1351	1708	1701	6101
1995-96						
Low paid	35.7	26.3	16.4	13.3	8.3	100
Not low paid	15.0	19.2	21.2	22.5	22.1	100
All	17.3	20.0	20.7	21.5	20.6	100
Numbers ('000) <sup>(c)</sup>	1151	1333	1376	1428	1369	6658

Notes: a) Because the quintile groups are based on the income unit and the number of individual employees in different income units varies across equivalent income groups, the numbers in each quintile are not the same.

b) Low pay estimates for adults and youth are based on their different respective thresholds

c) Numbers are weighted and rounded to the nearest thousand

Source: ABS Surveys of Income and Housing Costs, unit record files

per cent of all employees and 19.8 per cent of those with low hourly rates of pay lived in families whose equivalent disposable income placed them in the bottom quintile of incomes.

Over the first half of the 1990s, there was a substantial overall shift downwards into the bottom two income unit quintiles, with the percentage of all employees in the bottom quintile more than doubling, to 17.3 per cent. Again, however, we see that this downward shift took place proportionately as much amongst those not low paid by our definition as amongst the low paid. Although by the mid-1990s a considerably larger proportion of low-paid workers lived in families in the bottom fifth of the income distribution than in 1989-90, nearly 40 per cent were still in the third quintile or above. Another way of looking at this is to say that the percentage of employees in families in the bottom quintile who were low

paid actually fell slightly over the period. This is mainly because the size of the bottom income unit quintiles, in terms of the number of individual employees, grew relative to the upper ones.

It seems then that individual low pay, while significant, is only one of the factors contributing to the increase in working poverty. As was mentioned in the introduction to the paper, the composition of the work force has changed considerably, both in terms of male and female participation and full- and part-time work. It seems likely that this has resulted in a concentration of lower earnings in poorer households.

Table 7 gives a breakdown of low-paid employees in income units below the HPL by key characteristics, for the two end years of our observation period. It indicates that since 1981-82 there has been some shift in poverty amongst this group towards men, full-time workers and single people, and away from women, sole parents and couples with children. This is consistent with the earlier finding that men appear to have fared worse over this period in terms of low pay than women. The shift in the composition of the working poor towards single people reflects not only the apparent rise in poverty amongst youth, for whom, as we have seen, the Henderson methodology has some limitations (Saunders and Matheson, 1991), but also the impact of higher social security payments for working parents.

The drop in the proportion of the working poor who are sole parents might seem surprising at first sight, since other data suggest an intensification of poverty amongst this group. These two trends are not inconsistent, however, because the former is caused by a drop in participation in paid work by sole parents over this period, which has then contributed to higher levels of poverty.

The growth in family poverty amongst full-time workers would seem to undermine the proposition that insufficient weekly hours of work are to blame, unless that work is becoming more casual and intermittent. This is indeed a possibility, since it is known that casual and contract work are making up an increasingly large proportion of all employment (Burgess and Campbell, 1998).

**Table 7: Low-paid Employees in Income Units below HPL, by Key Characteristics: 1981-82 and 1995-96**

Characteristics	Percentages	
	1981-82	1995-96
Sex		
Male	47.4	53.3
Female	52.6	46.7
Labour Force Status		
Full-time	52.7	63.0
Part-time	47.3	37.0
Family Type		
Couple with dependants	37.9	31.8
Couple without dependants	5.2	7.0
Sole parent	11.5	9.0
Single person	45.4	52.1

Source: ABS Surveys of Income and Housing Costs, unit record files

To test this proposition, Table 8 breaks down the income unit poverty status of individual employees in 1994-95 and 1995-96 (combined) according to the proportion of the period prior to the survey in which they were in work (however long that was).<sup>8</sup> It also shows the percentage that those in work for different proportions of the previous period made up of all employees living in poor income units. The table indicates that while there is clearly a relationship between family poverty and less than full-year work for individuals, it is not a conclusive one. The vast majority (93 per cent) of all employees were in work for at least three-quarters of the previous period. Amongst those who were not, the poverty rate was substantially higher than the average, with more than two-fifths of those employed for less than half the previous period living in poor families.

8 It should be noted that in the new continuous survey respondents are no longer asked how many weeks during the previous year they were in work. Instead information is accumulated on how many months of employment they have had over a previous period, which can vary up to a maximum of eight months depending on when in the survey cycle they were interviewed. Thus the variable is rather less meaningful than that previously recorded.



Nevertheless, employees who had been in paid work for

**Table 8: Employees' Income Unit Poverty Status, by Previous Employment: 1994-96 (combined)**

	Percentage of previous period in employment <sup>(a)</sup>			
	More than 75%	50-75%	Less than 50%	Total
Poverty rate for employees	8.8	28.6	43.7	10.7
Working patterns of all employees	93.1	3.7	3.3	100
Working patterns of employees in poor families	76.6	9.8	13.6	100

Note: a) See footnote 8

Source: ABS Surveys of Income and Housing Costs, unit record files.

more than three-quarters of the previous period still constituted nearly 77 per cent of those in poverty.

Table 8, however, does not fully answer the question of whether less than full-year work also interacts with less than full-time work to keep an increasing number of employees in family poverty. Although it was suggested earlier that full-year full-time (FYFT) workers were no longer fully representative of contemporary working patterns, one might expect most of this group, at least, to escape family poverty. A trend towards greater poverty amongst them could be regarded as a clear sign of problems with wages at the lower end.

Table 9 therefore updates Saunders' (1994) estimates of family poverty by the labour force status of the head, or reference person. We have the same difficulty here as in Table 8, in that changes in survey methods from 1994-95 onwards prevent the precise replication of his categories of labour force status. He counted as full-year full-time all those employed for 50 weeks or more in the previous year, of which less than half was part time. The 'unemployed' were those unemployed for eight weeks or more during the year, and the 'other non-aged people in the work force' made up a residual category which included part-time workers and short-term

unemployed. The most that can be done with the 1995-96 survey is to create the full-year, full-time category out of those reporting no more

than one month not in work during the previous period and also working full time for at least half the period. Because the length of this previous period varies according to the survey cycle, this category could be larger than in the earlier years. However, the table shows that the relative size of the FYFT group in 1995-96 was actually smaller than in 1989-90 and the 'other non-aged in labour force' category was substantially larger. This is consistent with the known increase in part-time and casual work, but it is difficult to discern how much the shift between the categories is also influenced by discontinuity in survey methods.

Bearing this in mind, Table 9 does indicate a considerable increase in poverty amongst families with a reference person in FYFT work. In 1989-90, only 2.0 per cent of these families were in Henderson poverty and they made up 6.2 per cent of all poor families. By 1995-96 (with annual incomes based on 1994-95), it appears that their poverty rate had grown to 5.3 per cent and they represented 11.7 per cent of all families in poverty. The incidence of poverty seems also to have risen amongst the unemployed and the aged, but fallen amongst those not in the labour force and in the residual 'other' category. Overall, poverty appears to have nearly doubled, to just under one-fifth of all income units. This finding is consistent with that of the ABS, which estimated that 20.5 per cent of income units were below the HPL in 1995-96 (ABS, 1998b).

One final question is how far working poverty amongst those families with a FYFT main earner is associated with family size, and whether this association is changing over time. Table 10 shows the income unit types of those with a FYFT reference person identified as poor in the 1985-86 and 1995-96 surveys. As emphasised above, we need to be cautious about the comparison between the two years because of differences in definition. The final column for each year shows that the family composition of the FYFT work force has in fact not changed a great deal. However, the overall growth in poverty amongst this group conceals considerable differences by family type. Over the 10 year period, the proportion of poor FYFT employees who were single people without children grew from just over one-third to more than 46 per cent.

Meanwhile large two-parent families (those with three or more children changed from making up nearly 48 per cent of the FYFT poor to only 18

**Table 10: Poverty Among Full-Year Full-Time Employees, by Family Type: 1985-86 and 1995-96**

Income Unit Type	1985-86			1995-96		
	Incidence of poverty %	Structure of poverty %	Percentage of all FYFT income units	Incidence of poverty %	Structure of poverty %	Percentage of all FYFT income units
Single person under 25 yrs	1.3	14.6	14.4	8.8	19.8	12.0
Single person aged 25 to 59/64	1.1	18.7	22.7	5.2	26.5	27.0
Couple without children	0	0	20.8	1.2	4.9	21.5
Sole parent with 1 child	2.7	2.4	1.2	10.5	3.5	1.7
Sole parent with 2 or more children	4.8	2.9	0.8	10.6	2.3	1.2
Couple with 1 child	0.3	3.3	12.9	3.3	7.1	11.4
Couple with 2 children	0.8	10.5	18.0	5.9	17.7	15.9
Couple with 3 or more children	6.9	47.7	9.1	10.2	18.2	9.4
Total	1.3	100.0	100.0	5.3	100.0	100.0

Source: ABS Surveys of Income and Housing Costs, unit record files

per cent (though their propensity to be poor was still nearly double the average). Poverty rates for couples with one or two children also increased but remained below or not much above the average, while those for sole parents also increased substantially.

In numerical terms, the number of income units categorised as FYFT rose by just over 365 000, or by 14 per cent, while the number of FYFT income units in poverty grew by 125 000, or by some 355 per cent. Two-fifths of this increase was among single people.

The improvement noted earlier in the position of women employees relative to men is also evident from this analysis. Men's share of all single person FYFT employment changed little over the period, dropping marginally from just over 63 per cent to just under 62 per cent. In 1985-86, however, they made up 50 per cent of those with incomes below the poverty line, whereas by 1995-96 this had increased to 60 per cent.

## **6 Policy Implications**

In the light of the findings above, it is worth considering what might happen if wages at the lower end of the distribution were allowed to fall further, as has been suggested as a strategy for reducing unemployment. Certainly there is an argument that any comprehensive package of measures to combat unemployment would have to include some form of wage restraint. However, as was noted in the introduction, there are doubts about how large the effect on unemployment would be. If it is small, then many low-waged workers might be worse off, while relatively few of the unemployed would gain, especially if a large proportion of any new jobs created went to people currently outside the labour market.

Secondly, there is danger that investment capital could be diverted into low productivity sectors (Long, 1998; Watson et al., 1998). In the US, much of the employment growth appears to have come at the expense of productivity, which has been considerably lower than in Australia since the 1970s (Gregory, 1998).

Thirdly, it is highly likely that such changes would exert downward pressure on the level of social security payments, because of the continued concern about work incentives. Unless a large number of unemployed people found work as a result, the effect would be depress further the living standards of many of the poorest families. Even if a wage freeze would not affect all those in or close to poverty, the problem of working poverty would be aggravated unless adequate compensatory support is provided through the tax and social security system.

Proponents of a freeze on award wages do suggest compensation for low-income households through tax credits or a negative income tax. It is clear that simply increasing existing family allowances cannot be the whole answer, even though they have helped to reduce poverty amongst the low

paid with children since the early 1980s. For a start, half the low paid in poverty do not have children. Yet extending income-related support to low earners without children, whether through social security or through a tax credit, would not only be expensive, but in the context of increasingly individualised wage bargaining might stand a risk of being captured over time by employers through even lower pay, unless a strong and enforceable minimum wage platform is in place.

Income-related, in-work benefits or tax credits can enhance incentives for unemployed people to take lower-paid work, but they also create poverty traps and can act as a disincentive for women in couples to look for work of their own. One assessment of the US Earned Income Tax Credit (EITC), for example, has found that while the expansion of the scheme in 1993 would have improved net earnings for the primary earner in two-parent families, it was also likely to reduce the labour force participation and average income of secondary earners (Dickert, Houser and Scholz, 1995).

Quite apart from the possible personal benefits for women of having paid work of their own, such disincentive effects are important if it turns out that the best way of avoiding working poverty for couples with children is to have a second income rather than rely on an earnings top-up. In earlier work undertaken as part of the current project, it was found that for families with a low-paid full-year, full-time primary earner, getting a second income was indeed more effective in most cases as a means out of family poverty than relying on the current levels of in-work social security benefits (Eardley, 1997).

In this context the Family Tax Initiative (FTI), introduced in 1997, is of interest. Microsimulation estimates by Landt and Beer (1998) show that while it is progressive in giving the greater percentage of extra disposable income to families in the lowest deciles of market income, the main beneficiaries are single income families (as was intended), not only because of the structure of the payments but also because these families are more likely to have children under five years of age. The other effect of the FTI is to extend the poverty trap considerably. Redmond (1998b forthcoming) shows that the structure of the FTI tends to counteract many of the 1995 social security changes, such as partial individualisation of

income support payments, which were intended to provide a work incentive for the partners of benefit recipients.

There is a danger that if wages are allowed to fall on the assumption that family incomes will be protected through tax credits or social security, these payments may end up failing to meet their income support goals even while spending on them increases. Thus any proposals for reform will have to be able to demonstrate not only that they can be effective technically, but also that they are feasible politically. The EITC has been popular in the US context of withdrawal from provision of 'welfare', but it has had a fairly small impact up to now on working poverty (Browning 1995; Chilman, 1995; Scholz, 1996), and it is arguable that one of its main functions has been to legitimise the low-wage economy. Nevertheless, the cost to the US Government of the EITC, modest though individual payments are, was projected to be nearly \$25 billion in 1998 (Dickert, Houser and Scholz, 1995), easily overtaking its share of expenditure on what used to be the US's main welfare program, Aid to Families with Dependent Children. Actual EITC costs have risen to \$28 billion in 1997 (Christian Science Monitor, 5 June 1998, p. 16).

Looking at it from the other perspective, what would happen if minimum wages were raised? Clearly this would affect more than just the poor, while some workers whose individual pay is slightly above the minimum, but whose income unit is still poor, might not benefit. More research is needed on the extent to which lower paid individuals' family units are below the poverty line to see what the impact of this would be, though there is an argument for raising the pay of some lower paid individuals irrespective of their family situations.

The question of the impact of minimum wages on employment is unlikely ever fully to be resolved. The OECD - not normally known as a champion of wage regulation - has concluded that the international evidence does not support the idea of higher minimum wages as a major cost on jobs - not for adults anyway (OECD, 1998). Gittins (1998), however, has rightly pointed out that minimum wage structures in countries from which most of the research comes are rather different from those of Australia. Minimum wages do seem to have more impact on youth employment. This highlights the question of what should be done to assist the relatively small but still significant pool of very low-paid young workers, since

raising their wages might have an adverse effect on their already poor employment prospects.

## **7 Conclusions**

This paper has analysed changes in the structure of hourly rates of pay and working hours from the early 1980s to the mid-1990s, in order to assess claims about the growth of working poverty in Australia. Many of the results are tentative and more work is needed to fill in a number of important details. The findings also rely on judgements both about an appropriate threshold for low pay and how to measure it, and on the use of the Henderson Poverty Line as a poverty standard - judgements which are, of course, open to question. The analysis has been restricted mainly to one data source and to a narrow concept of income poverty rates, without taking into account a range of other issues, such as poverty gaps, non-cash income and the persistence of low wages or poverty over time. Finally, the self-employed are excluded from the analysis because of data difficulties, but there is other evidence to suggest that low incomes amongst this group are by no means all illusory (Eardley and Bradbury, 1997).

In spite of these limitations in the analysis, it seems difficult to avoid the conclusion that the phenomenon of working poverty in Australia is real and growing. It is certainly true that low pay on an hourly basis does not in itself equal poverty. Most low-paid workers do not live in families with incomes below the poverty line and the biggest increase in family poverty has been among employees not in low pay according to the measure used here. Yet the proportion of low-paid workers who are also in poor families has grown to about one in five. Only part of this is due to the increasing prevalence of involuntary part-time and casual work. Discontinuities in data sources lead us to be cautious about the level of growth in poverty amongst those in full-year, full-time work, but this too seems to have risen significantly, with a particular increase amongst single person households.

These findings need to be seen in perspective. The group who are still much more likely to live in poor families than even low-paid employees are the unemployed (Harding and Richardson, 1998). In this respect the incentive structure built in to the relationship between low wages and

social security remains largely intact. Nevertheless, having employment seems to be becoming a much less effective safeguard against poverty than in the past.

Overall, it appears that what is needed to combat working poverty would be a combination of strategies. This might involve judicious increases in safety net wages and awards affecting workers in particularly low-wage industries. It would also include carefully designed and targeted support through the tax and social security systems, of a kind which minimises poverty traps, but it may be too much to expect social policy to deal with all the fallout from wage deregulation. Finally, special attention needs to be paid to the situation of low-paid young workers, especially in the context of the current review of youth wages. Further work to be undertaken as part of this project will involve looking cross-nationally at the impact of different policy structures on levels of working poverty.

We do not yet have a full explanation of the causes and dimensions of working poverty in Australia, but the evidence points to it being a development which will require serious policy attention if we do not want to store up intractable problems for the future.



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**Table 5: Percentage Poverty Rates Amongst Employees: 1981-82 to 1995-96<sup>(a)</sup>**

Year and poverty status <sup>(d)</sup>	Adults				Youth			
	Low Paid <sup>(b)</sup>	Not Low Paid	All Employees	Total Employed Work Force <sup>(c)</sup>	Low Paid	Not Low Paid	All Employees	Total Employed Work Force
1981-82								
Income unit with equivalent income below HPL	11.3	2.2	3.1		31.5	8.5	10.2	
Numbers	48 000	87 000	139 000		7000	26 000	33 000	
Income unit with equivalent income within 10% above HPL	14.3	3.2	4.3		33.4	9.6	11.4	
Numbers	60 000	123 000	184 000	4.286m	8000	29 000	73 000	327 000
1989-90								
Income unit with equivalent income below HPL	15.7	4.3	5.4		38.8	14.2	15.2	
Numbers	85 000	219 000	304 000		8000	65 000	73 000	
Income unit with equivalent income within 10% above HPL	19.8	6.3	7.6		49.5	18.6	19.9	
Numbers	108 000	320 000	428 000	5.619m	10 000	85 000	95 000	478 000
1995-96								
Income unit with equivalent income below HPL	20.0	5.9	7.4		49.7	33.4	35.9	
Numbers	132 000	327 000	459 000		55 000	210 000	257 000	
Income unit with equivalent income within 10% above HPL	25.7	7.3	9.2		53.3	37.1	39.6	
Numbers	170 000	405 000	575 000	6.221m	59 000	224 000	283 000	714 000

- Notes:
- a) Annual incomes for the 1995-96 survey are based on the 1994-95 tax year.
  - b) Low pay is as defined in previous tables, using separate adult and junior thresholds.
  - c) Based on population as defined for Table 1.
  - d) Income is annual equivalent disposable income and poverty is determined using the detailed Henderson Poverty Line (HPL) after housing costs.

Source: ABS Surveys of Income and Housing Costs, unit record files

**Table 9: Income Unit Poverty by Labour Force Status of Reference Person: 1985-86 to 1995-96**

Labour Force Status of Reference Person <sup>(b)</sup>	1985-86			1989-90			1995-96 <sup>(a)</sup>		
	Incidence of poverty (%)	Structure of poverty (%)	Percentage of all income units	Incidence of poverty (%)	Structure of poverty (%)	Percentage of all income units	Incidence of poverty (%)	Structure of poverty (%)	Percentage of all income units
Full-year, full-time workers	1.3	5.3	49.9	2.0	6.2	50.4	5.3	11.7	43.3
Unemployed	41.6	26.5	8.4	32.4	10.5	5.3	58.2	15.0	5.0
Other non-aged people in the labour force	15.3	10.2	8.8	23.0	13.1	9.4	22.8	24.2	20.8
Not in the labour force	37.2	29.5	10.5	56.3	44.1	12.9	41.2	20.0	9.5
Aged income units	16.9	28.8	22.5	19.5	26.1	22.0	26.6	29.1	21.3
All income units	13.2	100.0	100.0	16.5	100.0	100.0	19.6	100.0	100.0

Notes: a) Annual incomes in the 1995-96 survey are those for 1994-95

b) See text and footnote 8 for explanation of categories

Sources: ABS Surveys of Income and Housing Costs, unit record files; and Saunders (1994: 272-4)





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