

## Chapter 6: Wage transitions of low paid workers

### Introduction

- 6.1 The Australian Government presents information in this chapter on the incidence and characteristics of those low paid workers who are most likely to benefit from a minimum wage increase.
- 6.2 The chapter focuses on the wage transitions of low paid workers over time. In particular, the chapter examines the extent to which low paid workers transition to higher paid jobs.

### The Commission's 2006 Decision

- 6.3 The Commission recognised in its 2006 Minimum Wage Review decision that minimum wages need to be set at a level that encourages those outside the labour force to look for work.<sup>38</sup>
- 6.4 However, as the OECD recently stated:
- “a minimum wage set at a high, binding level is likely to price the least productive workers out of employment, and possibly out of the labour force if, as in the case of youth or low skilled women, their attachment to the labour market is weaker”.*<sup>39</sup>
- 6.5 In its 2006 Minimum Wage Review decision, the Commission indicated that the path to higher earnings is often achieved through the attainment of skills or relocating to regions where there is greater availability of higher paid jobs, rather than reliance on minimum wage adjustments.<sup>40</sup>

### Characteristics of low paid workers

- 6.6 Data from the HILDA survey show that low paid workers live in a diverse range of household structures but share some common characteristics.

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<sup>38</sup> Australian Fair Pay Commission, *Wage Setting Decision and Reasons for Decision*, 2006, page 12.

<sup>39</sup> OECD, *Economic Policy Reforms: Going for Growth 2007*, page 133.

<sup>40</sup> Australian Fair Pay Commission, *Wage Setting Decision and Reasons for Decision*, 2006, page 9.

Tables 6.1 and 6.2 provide full details of the characteristics of low paid workers.

6.7 In summary:

- around 61.1 per cent of low paid employees live in couple households, 15.6 per cent are single adults and 7.6 per cent are lone parents;<sup>41</sup>
- low paid employees are more likely to be employed in service industries such as Retail trade, Health and community services, Property and business services, and Accommodation, cafes and restaurants. Together, these industries accounted for 53.3 per cent of all low paid workers;
- low paid workers are more likely to be less educated with around 35.2 per cent having completed Year 11 education or below, compared with 21.9 per cent of all employees;
- low paid workers are much more likely to be less skilled, with 41.3 per cent in the bottom 3 scales of the Australian Standard Classification of Occupations (ASCO) compared with 21.5 per cent of all employees;<sup>42</sup>
- low paid workers are more likely to live in regional areas;
- low paid workers are more likely to be women who are working in part-time jobs – this group accounted for 35.4 per cent of all low paid workers; and
- low paid employees are also more likely to work in the private sector and in small firms.

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<sup>41</sup> Low paid workers can also be other family members or be unrelated to other household members.

<sup>42</sup> Includes Intermediate production and transport workers; Elementary clerical, sales and service workers; and Labourers and related workers.

**Table 6.1: Characteristics of low paid workers (2005) (percentage of total unless otherwise specified)**

	All Low Paid Employees	Low Paid Male	Low Paid Female	All Employees
<b>Gender</b>				
Male	40.5			50.0
Female	59.5			50.0
<b>Age</b>				
21 to 30 yrs	36.2	43.2	31.5	24.7
31 to 44 yrs	29.6	24.4	33.0	38.5
45 yrs plus	34.2	32.3	35.5	36.8
<b>Country of Birth</b>				
Born in Australia	81.7	83.5	80.5	79.2
Born in other countries	18.3	16.5	19.6	20.8
<b>Household Type</b>				
Partnered	61.1	54.8	65.4	68.7
Partnered with dependents	26.9	19.1	32.1	37.1
Lone Persons	15.6	23.1	10.6	14.4
Lone Parents	7.6	1.7	11.7	6.4
Lone parents with dependents	6.7	1.7	10.1	5.1
<b>Education Attainment</b>				
Degree or Post Graduate	14.3	12.2	15.7	30.2
Certificate/Diploma	33.8	34.7	33.3	34.1
Year 12	16.7	19.1	15.1	13.9
Year 11 or below	35.2	34.0	36.0	21.9
<b>Location</b>				
Major City	56.3	57.8	55.3	65.7
Inner Regional Australia	25.8	23.4	27.4	22.9
Outer Regional Australia	14.6	15.8	13.7	9.6
Remote and Very Remote Area	3.3	3.0	3.6	1.9
<b>Employment</b>				
Full-time	55.2	76.9	40.5	73.2
Part-time	44.8	23.1	59.6	26.8
Fixed-term Contract	8.3	9.6	7.4	9.8
Casual	47.7	37.3	54.8	17.2
Permanent	43.6	52.8	37.3	72.7
Private Sector (for profit)	77.3	82.8	73.5	62.8
Public Sector (Govt GBE or Stat Authority)	11.8	7.3	14.8	28.2
Small Business (0 to 19 employees)	56.0	56.8	55.5	34.7
Medium Business (20 to 99 employees)	25.3	26.1	24.7	31.2
Large Business (100 employees plus)	16.3	14.5	17.5	33.1
Avg Tenure with current employer (years)	5.7	6.5	5.1	8.1
Avg Years in current occupation (years)	7.9	8.4	7.5	10.7

Source: Household Income and Labour Dynamics Australia (HILDA) Survey Release 5.0, February 2007.

**Table 6.1: Characteristics of low paid workers (2005) (percentage of total unless otherwise specified) - continued**

	All Low Paid Employees	Low Paid Male	Low Paid Female	All Employees
<b>Occupation</b>				
Managers & Administrators	2.1	2.6	1.8	6.3
Professionals	9.6	10.2	9.2	26.5
Associate Professionals	11.0	12.2	10.1	13.9
Tradespersons	9.4	17.8	3.6	9.4
Advanced & Intermediate Clerical & Service	26.6	9.9	38.0	22.3
Intermediate Production & Transport	10.3	20.1	3.6	8.4
Elementary Clerical, Sales & Service	13.5	8.3	17.1	6.5
Labourers & Related Workers	17.5	18.8	16.6	6.6
<b>Industry</b>				
Agriculture, forestry & fishing	7.0	9.9	4.9	2.7
Mining	0.1	0.3	0.0	1.7
Manufacturing	8.4	13.2	5.2	11.8
Electricity, gas & water	0.4	1.0	0.0	0.9
Construction	3.7	6.9	1.6	4.5
Wholesale trade	4.6	5.9	3.6	4.6
Retail trade	17.8	16.8	18.4	9.4
Accommodation, cafes & restaurants	9.8	7.9	11.0	3.9
Transport & storage	3.7	5.9	2.3	4.2
Communication services	0.7	0.7	0.7	2.1
Finance & insurance	1.5	0.0	2.5	4.2
Property & business	9.9	9.6	10.1	9.5
Government administration & defence	2.3	2.0	2.5	6.8
Education	7.4	5.6	8.5	12.7
Health & community services	15.8	5.9	22.5	14.7
Cultural, recreational, personal & other services	7.1	8.3	6.3	6.2

Source: Household Income and Labour Dynamics Australia (HILDA) Survey Release 5.0, February 2007.

Note: a) Private and public sector categories do not add up to 100 per cent. Those employees not responding to the option of public sector (Government business enterprise or commercial statutory authority) or private sector (for profit organisation) employment were engaged either with other commercial organisations, private sector non-for-profit organisations, other governmental organisations or other non-commercial organisations.

b) A small proportion of respondents also did not provide a response as to their employment contract status (Fixed-term contract, casual or permanent).

c) Each category may not sum up to exactly 100 per cent due to rounding.

6.8 Table 6.2 reveals that around a third of low paid employees were working on a casual part-time basis, while just over a third were working on a permanent full-time basis.

**Table 6.2: Adult workers by employment contract type in 2005**

	Low paid employees (%)	All employees
Permanent Full-time	34.0	59.8
Permanent Part-time	9.8	12.9
Casual Full-time	14.8	5.4
Casual Part-time	33.2	12.1
Fixed-term Contract Full-time	6.6	7.8
Fixed-term Contract Part-time	1.7	2.1
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

Source: *Household Income and Labour Dynamics Australia (HILDA) Survey Release 5.0, February 2007.*

## Incidence of low paid employment

6.9 HILDA data reveal that the incidence of low paid employment remained relatively constant between 2001 and 2005, with around 12.9 per cent of all employees low paid in 2005 compared with 12.7 per cent in 2001 (see Table 6.3).

6.10 Women are more likely to be low paid – 15.3 per cent of all female employees were low paid in 2005 compared with 10.5 per cent of male employees.

**Table 6.3: Incidence of low pay by gender**

	2001 (%)	2002 (%)	2003 (%)	2004 (%)	2005 (%)
Male	10.7	10.8	11.5	10.5	10.5
Female	14.6	14.9	14.5	13.9	15.3
All	12.7	12.8	13.0	12.1	12.9

Source: *Household Income and Labour Dynamics Australia (HILDA) Survey Release 5.0, February 2007.*

## Household income distribution and workers earning close to the Federal Minimum Wage

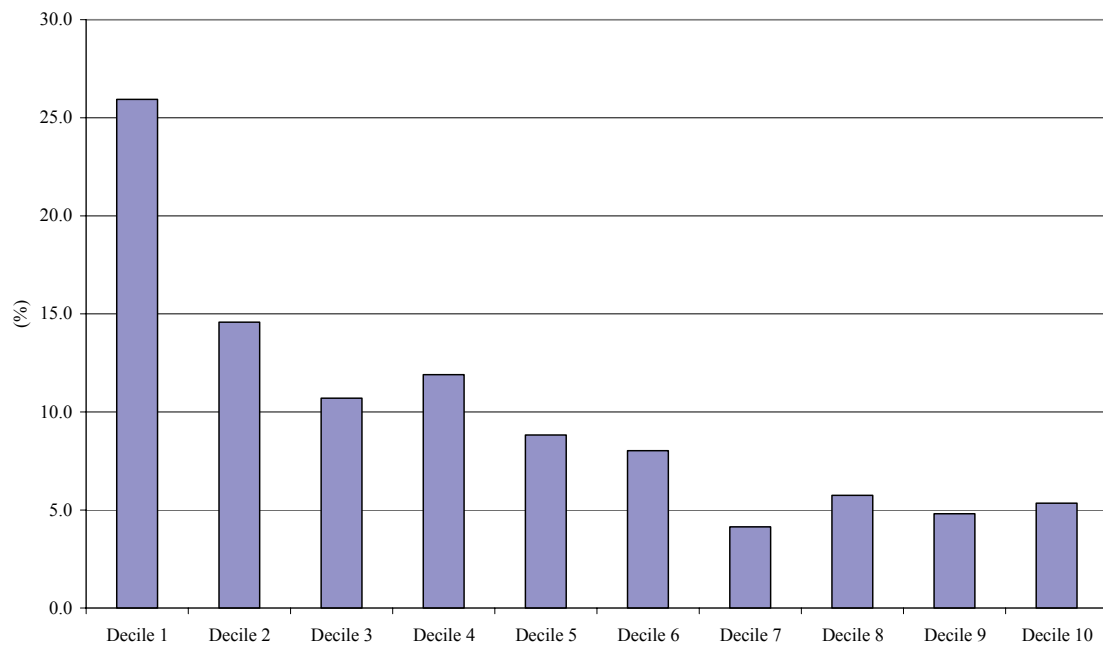
6.11 There are two ways of examining the household distribution of low paid employees. The first is to look at the distribution of low paid employees among households with at least one employee. The second is to examine the distribution of low paid employees among all households.

6.12 A decision to support all low paid workers through increases in minimum wages will deliver the same benefit to low paid workers residing in more wealthy households and less wealthy households. This latter group is much more dependent on increases in minimum wages to sustain their standard of living than the former.

### ***Households with employees***

6.13 According to 2005 HILDA data, 51.2 per cent of low paid workers are in the bottom three deciles of the income distribution for households with employees. Alternatively, around 15.9 per cent of low paid workers were in the top three household income deciles (see Chart 6.1).

**Chart 6.1: Distribution of low paid workers earning two-thirds median weekly earnings by household income decile among households with employees – 2005**



Source: *Household Income and Labour Dynamics Australia (HILDA) Survey Release 5.0, February 2007.*

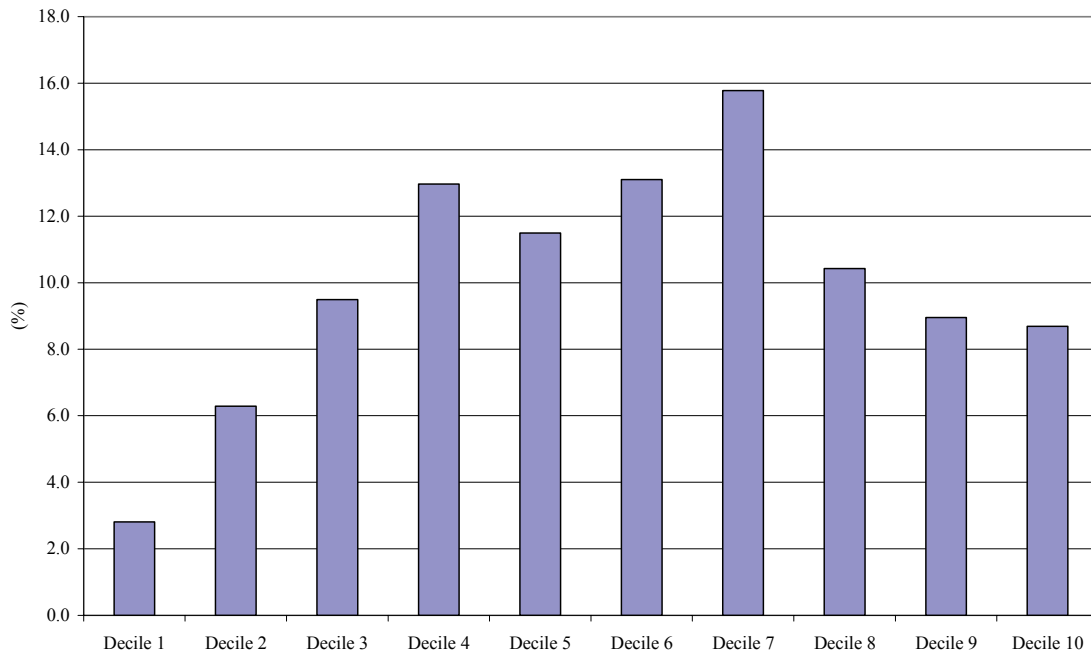
### ***All Households***

6.14 The distribution of low paid workers among all households (those with and without employees) is more heavily concentrated in the middle and upper household income deciles (see Chart 6.2). This is due to the

inclusion of a substantial number of households without employees (including jobless households and households headed by retirees).

6.15 Using this measure, only 18.6 per cent of low paid workers are in the bottom three household income deciles and 81.4 per cent are in the remaining seven income deciles. Around 28.1 per cent of low paid workers are in the top three deciles of household income.

**Chart 6.2: Distribution of low paid workers earning two-thirds median weekly earnings by household income decile among all households – 2005**



Source: *Household Income and Labour Dynamics Australia (HILDA) Survey Release 5.0, February 2007.*

## **Wage transitions for low paid workers – do low paid jobs act as stepping stones to higher paid work?**

### ***International research conducted into earnings mobility***

6.16 A number of international studies demonstrate that a significant proportion of low paid workers make a rapid transition to higher paid work.

- 6.17 Evan and McPherson compared minimum wage workers with a comparison group earning above the minimum.<sup>43</sup> The authors concluded that, for a large majority of workers, minimum wage jobs tend to be entry-level jobs and are of short duration.
- 6.18 A United Kingdom study found that 55.6 per cent of individuals that were paid at or below the National Minimum Wage (NMW) at their initial interview moved to employment paid above the NMW one year later.<sup>44</sup> A further 32.3 per cent remained in employment where they were paid at or below the NMW, 2.9 per cent exited to unemployment, and 9.2 per cent became inactive (or not in the labour force).
- 6.19 The authors of the UK study concluded that:
- “While these transitions rates suggest a measure of persistence at wages at or below the NMW for some workers, for the majority minimum wage employment seems to be only a temporary phenomenon”.*<sup>45</sup>
- 6.20 The authors also found that the adjustment was substantial for many people moving to positions that paid above the NMW, particularly given that the data only covered a 12 month period. Men were more likely to move out of minimum wage payment into higher pay than women while the size of the upward adjustment was typically greater for men than for women.
- 6.21 The characteristics most closely associated with an individual remaining at or below the NMW were employment in a small firm, working part-time, or private sector employment.
- 6.22 Individuals with post-school qualifications were significantly less likely to remain at or below the NMW and more likely to exit to employment above the NMW than individuals without formal academic qualifications.

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<sup>43</sup> W E Evan and D A Macpherson. ‘The wage and employment dynamics of minimum wage workers’, *Southern Economic Journal*, 69, pages 676-690.

<sup>44</sup> M K Jones, R J Jones, P D Murphy and P J Sloane, ‘The Dynamics of the National Minimum Wage: Transitions Between Labour Market States’, Institute for the Study of Labor (IZA), Discussion Paper No. 1690, July 2005.

<sup>45</sup> *Ibid*, page 11.

### ***Australian research conducted into earnings mobility***

- 6.23 Australian research into wage mobility of low paid workers closely resembles international experience.
- 6.24 Research conducted by the Melbourne Institute for the Commission's 2006 Minimum Wage Review concluded that almost 60 per cent of workers earning around the FMW who were working full-time in 2001 made the transition to above minimum wage employment by 2004.<sup>46</sup>
- 6.25 Similarly, around 44 per cent of workers earning around the FMW who were working part-time in 2001 made the transition to above minimum wage employment.<sup>47</sup> Just under a quarter of low paid workers who were working part-time in 2001 were still in low pay in 2004.<sup>48</sup> A further 24 per cent were not in the labour force, and 6 per cent were unemployed.<sup>49</sup>

### ***Study by the Melbourne Institute into low pay dynamics***

- 6.26 The Melbourne Institute is currently conducting research into the relationship between low pay dynamics and welfare dependency as part of DEWR's Social Policy Research Services Agreement.<sup>50</sup>
- 6.27 Initial findings from the Melbourne Institute research using four waves of HILDA data show that 53.8 per cent of workers earning up to two-thirds of median weekly earnings in 2001 progressed to higher paying jobs by 2004 while 23.1 per cent remained in a low paid job.

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<sup>46</sup> S McGuinness, J Freebairn, and K Mavromaras, 'Characteristics of Minimum Wage Employees', Melbourne Institute of Applied Economic and Social Research Report commissioned by the Australian Fair Pay Commission, 2006, page 28.

<sup>47</sup> Ibid, page 28.

<sup>48</sup> Ibid, page 28.

<sup>49</sup> Ibid, page 28.

<sup>50</sup> H Buddelmeyer, W-S Lee, M Wooden and H Vu, 'Low Pay Dynamics: Do Low Paid Jobs Lead to Increased Earnings and Lower Welfare Dependency Over Time?' – paper being prepared under the Social Policy Research Services (SPRC) Agreement between DEWR and the Melbourne Institute, due for completion end of March 2007. For the purposes of the study, the Melbourne Institute defined low paid workers as those earning up to two-thirds of median income, which is just in excess of the hourly rate of pay of those on the FMW. The data excluded those persons aged under 21 years, full-time students, and persons who were either self employed or employees of their own business. The Melbourne Institute included all employees recording positive hourly wage rates which they determined using weekly earnings in main job and hours worked in main job. A discount of 20 per cent was applied to calculated wage rates to account for the loading paid to casual employees in lieu of leave entitlements. Low paid workers were defined as moving to a higher paid job if they earned in excess of two-thirds of median weekly earnings in the following year.

- 6.28 The Melbourne Institute also conducted research into the extent of wage movements beyond the low pay threshold. The authors found that around 10.3 per cent of workers earning less than two-thirds median earnings in 2001 earned between two-thirds median and three-quarters median earnings in 2004. A further 28.5 per cent earned between three-quarters median earnings and median earnings while 15.1 per cent earned in excess of median earnings. In other words, 43.6 per cent of low paid workers in 2001 were earning in excess of three quarters of median earnings by 2004.
- 6.29 Around 17.8 per cent of workers who were low paid in 2001 were jobless in 2004.<sup>51</sup> All transition results are in Table 6.4.
- 6.30 In summary, the Melbourne Institute's results confirm that over a half of all low paid workers make the transition from low to higher pay within one to two years while less than a quarter are in low paid jobs three years later. More than 80 per cent of low paid workers are still in employment three years later.

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<sup>51</sup> A further 5.3 per cent were employed. However, a wage rate could not be calculated due to incomplete information on earnings and/or hours worked.

**Table 6.4: Labour Force Status of Adult Low Paid Workers in 2001 in Subsequent Years**

	Labour Market State								
	Employed								
	< 2/3 median (still low paid)	2/3 to 3/4 median	3/4 to median	> median	Total Higher Paid	Employed No WR	UE	NILF	Total
<b>2002</b>	31.0	14.0	21.8	14.1	<b>49.9</b>	5.0	3.2	11.0	100.0
<b>2003</b>	26.8	11.6	25.3	13.2	<b>50.1</b>	7.3	3.5	12.3	100.0
<b>2004</b>	23.1	10.3	28.5	15.1	<b>53.9</b>	5.3	4.2	13.6	100.0

Source: H Buddelmeyer, W-S Lee, M Wooden and H Vu, 'Low Pay Dynamics: Do Low Paid Jobs Lead to Increased Earnings and Lower Welfare Dependency Over Time?' forthcoming publication.

Note: Employed No WR are those who were employed but no wage rate could be calculated due to insufficient information, UE are unemployed, and NILF are not in the labour force.

6.31 The Melbourne Institute conducted economic modelling to establish the factors that most contributed to residing within the low pay group. The authors found that:

- if people were in a low paid job in the previous year they were 3.7 per cent more likely to be in low pay in the following year.
- if people were unemployed in the previous year they were 6.1 per cent more likely to be in low pay in the following year.
- if people lived in a major city they were 2.1 per cent less likely to be in low pay.
- men were 2.8 per cent less likely to be in low pay than women.
- higher education attainment contributed to decreased likelihood of being in low pay.
- all of these factors were found to be statistically significant in explaining a higher or lower probability of being in low pay.

## **Analysis of wage transitions for low paid workers using the latest HILDA data**

### ***Wage transitions of casual and non-casual low paid workers***

- 6.32 Just under a half of all low paid workers are casual employees. Research indicates that casual workers have good prospects of moving to higher paid and non-casual jobs.
- 6.33 A study conducted by Buddelmeyer, Wooden and Ghantous estimated that around 32 per cent of casual workers found a non-casual job within a year and just over 49 per cent found a non-casual job within three years.<sup>52</sup>
- 6.34 Buddelmeyer, Wooden and Ghantous also tested whether casual employees may be 'trapped' in casual employment. They defined an employee as 'trapped' if the worker had low job satisfaction levels and a low probability of voluntarily quitting their job within the next 12 months. The authors found that less than 2 per cent of casual workers in Australia felt 'trapped' in their jobs. Further, the authors found no evidence that casual workers are any more trapped than non-casual workers.<sup>53</sup>
- 6.35 The Government's examination of HILDA data reveals that 47.4 per cent of low paid casual employees in 2001 made the transition to higher paid work in 2005 while low paid employees in non-casual jobs exhibit a slightly higher rate of transition to high paid work (57.6 per cent).

### ***Household distribution of low paid workers who make the transition to higher pay***

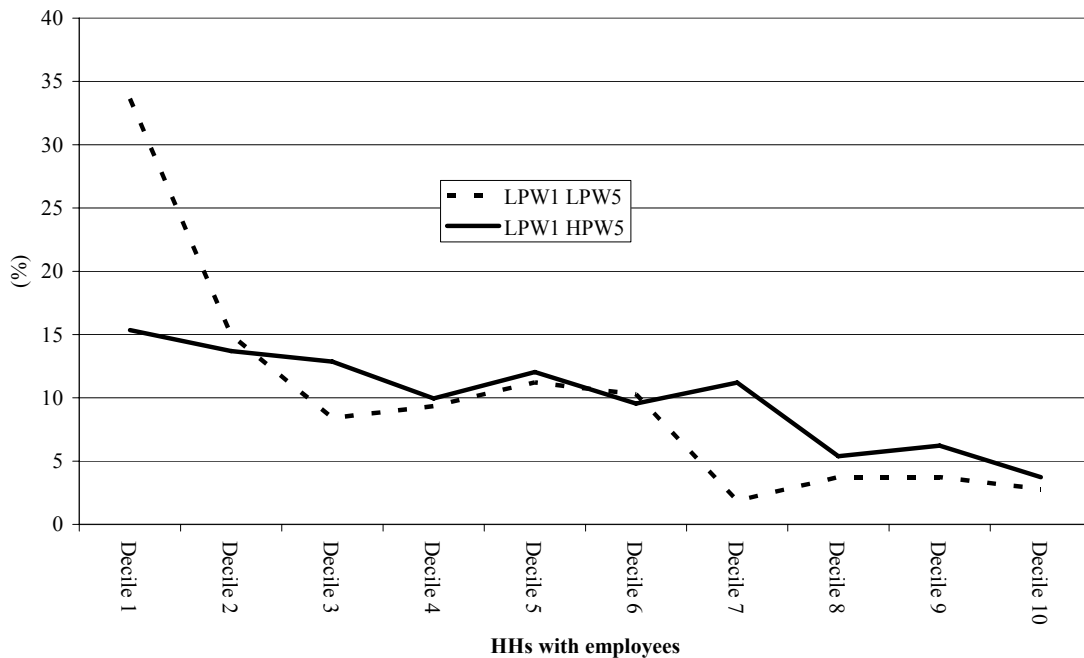
- 6.36 Those low paid workers who progress to higher paid jobs tend to be more evenly distributed through the household income distribution (see Chart 6.3) whereas people who remain in low paid jobs are more heavily concentrated in the bottom two income deciles.

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<sup>52</sup> H Buddelmeyer, M Wooden and S Ghantous, 'Transitions from Casual Employment in Australia', forthcoming publication under the Social Policy Research Services (SPRC) Agreement between DEWR and the Melbourne Institute, pages 28-29. Around 37.1 per cent found permanent jobs, 6.5 per cent found positions where employees are on fixed-term contracts, and 5.7 per cent were self employed.

<sup>53</sup> *Ibid*, page 68.

**Chart 6.3: Distribution of low paid workers who progress to higher pay or remain in low pay**



Source: Household Income and Labour Dynamics Australia (HILDA) Survey Release 5.0, February 2007.

**Characteristics of low paid workers who make the transition to higher paid work**

6.37 The characteristics of low paid workers who make the transition to higher paid work differ substantially from the characteristics of low paid workers who remain in low paid jobs (see Table 6.5). Low paid workers who make the transition to higher pay are more likely to be:

- younger;
- better educated;
- working in medium and large businesses; and
- living in metropolitan areas.

**Table 6.5: Characteristics of low paid workers (in 2001) who progressed to higher pay or remained in low paid work in 2005 (percentage unless otherwise specified)**

	Low Paid Wave 1 (2001) and Low Paid Wave 5 (2005) (% of total)	Low Paid Wave 1 (2001) and Higher Paid Wave 5 (2005) (% of total)
<b><u>Age</u></b>		
21 to 30 yrs	12.2	20.8
31 to 44 yrs	32.7	38.2
45 yrs plus	55.1	41.1
<b><u>Country of Birth</u></b>		
Born in Australia	80.4	81.3
Born in other countries	19.6	18.7
<b><u>Household Type</u></b>		
Partnered	59.8	66.8
Partnered with dependents	25.2	37.3
Lone Persons	23.4	17.0
Lone Parents	8.4	8.3
Lone parents with dependents	5.6	5.8
<b><u>Education Attainment</u></b>		
Degree or Post Graduate	8.4	18.3
Certificate/Diploma	28.0	40.7
Year 12	16.8	13.3
Year 11 or below	46.7	27.8
<b><u>Location</u></b>		
Major City	44.9	54.8
Inner Regional Australia	29.9	30.3
Outer Regional Australia	21.5	13.7
Remote and Very Remote Area	3.7	1.2
<b><u>Employment</u></b>		
Full-time	57.0	63.1
Part-time	43.0	36.9
Fixed-term Contract	1.9	10.8
Casual	46.7	22.4
Permanent	43.0	65.6
Private Sector (for profit)	77.6	68.5
Public Sector (Govt GBE or Stat Authority)	9.4	19.1
Small Business (0 to 19 employees)	61.7	38.6
Medium Business (20 to 99 employees)	22.4	34.9
Large Business (100 employees plus)	15.0	26.1
Avg tenure with current employer (years)	8.3	6.6
Avg years in current occupation	10.9	9.0

**Table 6.5 (cont): Characteristics of low paid workers (in 2001) who progressed to higher pay or remained in low paid work in 2005 (percentage unless otherwise specified) – continued**

	Low Paid Wave 1 (2001) and Low Paid Wave 5 (2005) (% of total)	Low Paid Wave 1 (2001) and Higher Paid Wave 5 (2005) (% of total)
<b>Occupation</b>		
Managers & Administrators	3.7	2.1
Professionals	5.6	14.9
Associate Professionals	7.5	10.8
Tradespersons	13.1	10.0
Advanced & Intermediate Clerical & Service	21.5	28.2
Intermediate Production & Transport	15.0	12.5
Elementary Clerical, Sales & Service	10.3	10.8
Labourers & Related Workers	23.4	10.8
<b>Industry</b>		
Agriculture, forestry & fishing	13.1	2.9
Mining	0.0	1.7
Manufacturing	8.4	12.0
Electricity, gas & water	1.9	1.7
Construction	3.7	2.1
Wholesale trade	5.6	6.6
Retail trade	14.0	13.3
Accommodation, cafes & restaurants	4.7	7.1
Transport & storage	4.7	5.0
Communication services	1.9	1.2
Finance & insurance	0.9	3.3
Property & business	10.3	6.2
Government administration & defence	0.0	2.5
Education	5.6	9.5
Health & community services	15.0	17.8
Cultural, recreational, personal & other services	10.3	7.1

Source: Household Income and Labour Dynamics Australia (HILDA) Survey Release 5.0, February 2007.

Note: Private and public sector involvement do not add up to 100 per cent. Those employees not responding to the option of public sector (Government business enterprise or commercial statutory authority) or private sector (for profit organisation) employment, were engaged either with other commercial organisations, private sector non-for-profit organisations, other governmental organisations or other non-commercial organisations. A small proportion of respondents also did not provide a response as to their employment contract status (fixed-term contract, casual or permanent).

### **Pathways to higher pay**

6.38 HILDA data show that there are a number of paths that low paid workers take to progress to higher pay (see Table 6.6). These pathways range

from staying in the same job and being rewarded by an employer for accumulating skills and experience, to moving to a higher paid job in a different occupation or industry.

- Around 53.9 per cent of low paid workers moved to higher pay by remaining in the same occupation while 46.1 per cent moved to higher pay by changing occupation.
- Just over a third (36.5 per cent) of low paid workers moved to higher pay by staying in the same occupation and in the same industry.
- Just over a quarter (25.3 per cent) made the transition to higher pay by changing both their occupation and their industry.

**Table 6.6: Pathways to higher pay**

	Low Pay 2001 and Higher Pay 2005 (% of total)	Low Pay 2001 and Low Pay 2005 (% of total)
Same Occupation Same Industry	36.5	42.7
Different Occupation Same Industry	20.8	25.5
Same Occupation Different Industry	17.4	12.7
Different Occupation Different Industry	25.3	19.1
<b>Total</b>	100.0	100.0

Source: *Household Income and Labour Dynamics Australia (HILDA) Survey Release 5.0, February 2007.*

### ***Wage transitions of low paid workers by industry***

6.39 The following analysis presents the wage transitions of low paid workers and concentrates on nine key industries which together account for over 80 per cent of low paid workers.

6.40 Among the key findings were:

- low paid workers in Education and Manufacturing recorded the highest transition rates from low pay to higher pay (62.2 per cent and 61.9 per cent respectively); and
- lower transition rates were recorded for low paid workers in the combination of Property & Business Services and Finance & Insurance (42.4 per cent) and Agriculture, forestry and fishing (43.9 per cent).

**Table 6.7: Wage transitions of low paid workers by industry**

Industry	% of all Low Paid Workers in 2001	% who had moved to Higher Pay by 2005
Retail trade	18.0	48.8
Health and community services	11.8	50.9
Cultural, recreational, personal & other services	9.4	47.7
Manufacturing	9.0	61.9
Agriculture, forestry and fishing	8.8	43.9
Accommodation, cafes & restaurants	8.8	53.7
Education	7.9	62.2
Property & business services & Finance & insurance	7.1	42.4
<b>Total</b>	<b>80.9</b>	

Source: Household Income and Labour Dynamics Australia (HILDA) Survey Release 5.0, February 2007.

Note: Analysis was restricted to only the key employing industries of low paid workers.

## Persistence of low pay

6.41 This section examines the degree of persistence of low pay over the five years to 2005.

**Table 6.8: Persistence of low pay for all adult employees**

Experience with Low Paid Employment between 2001 and 2005	% of all adult employees
Had never been low paid	77.5
Been low paid once	12.5
Been low paid for two years	5.1
Been low paid for three years	2.8
Been low paid for four years	1.3
Been low paid for five years	0.8
	100.0

Source: Household Income and Labour Dynamics Australia (HILDA) Survey Release 5.0, February 2007.

Note: These outcomes reflect the responses of a balanced panel of employees who responded in all 5 years between 2001 and 2005. The data refer to employees aged 21 years or more and exclude full-time students.

6.42 HILDA data show that 77.5 per cent of all employees were never low paid in the period between 2001 and 2005. Around 12.5 per cent were low paid for one year in the period, 5.1 per cent were low paid for two years, 4.1 per cent were low paid for three or four years, and only 0.8 per cent were persistently low paid for all five years.

6.43 Clearly, the overwhelming majority of low paid workers do not remain in low paid jobs.

## **Conclusion**

- 6.44 International and Australian studies reveal that a sizeable proportion of low paid workers make the transition to higher pay within two to three years. A significant proportion of low paid workers move above low pay within a few years. Low paid work is an important stepping stone to higher paid work.
- 6.45 The information in this chapter suggests that there is a relatively small proportion of low paid workers at or near the FMW that are dependent upon increases in minimum wages to support their living standards.