

## Chapter 5: Importance of low paid work

### Introduction

- 5.1 This chapter commences with a discussion of the problem of unemployment, with a particular focus on jobless households. The Australian Government examines the importance of low paid jobs in enabling unemployed individuals to gain a foothold in the labour market.
- 5.2 The chapter concludes with an outline of the Government's policies designed to reduce welfare dependence, thereby increasing labour supply.

### Unemployment and the importance of finding work

- 5.3 Unemployment is the major cause of inequality and poverty. Lloyd, Harding and Payne<sup>18</sup> used data from the ABS *Survey of Income and Housing Costs* to assess the characteristics of persons in relative poverty – or more correctly, people with the lowest disposable cash incomes. This analysis appeared in the National Centre for Social and Economic Modelling (NATSEM) report – *Australians in poverty in the 21<sup>st</sup> century*.<sup>19</sup> The authors found that:
- around 41.1 per cent of unemployed people are in relative poverty; and
  - people whose principal source of income was Government cash benefits accounted for 56.0 per cent of all persons in relative poverty.
- 5.4 Finding a job is the best way of exiting relative poverty. Lloyd, Harding and Payne found that only 2.0 per cent of people whose main source of income was wages and salaries were in relative poverty. Furthermore, the majority of full-time workers who were on low incomes were not wage and salary earners, but employers or self-employed persons.

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<sup>18</sup> The authors repeated concerns of the ABS regarding the accuracy of the data underpinning this research and noted that the analysis ignored non-cash benefits, such as education and health services. Homeless people were not included in the survey.

<sup>19</sup> A person is defined as being in relative poverty if they reside in a household earning less than half of median household disposable income.

- 5.5 In many cases, self-employed persons may have directed income back into their business. As a result, many employed persons characterised by survey data as 'income poor' or in relative poverty may, in fact, be in much better financial circumstances.
- 5.6 According to data from the *ABS Household Income and Income Distribution* survey undertaken in 2003-04, persons in low income households are much less likely to work than those in higher income households. The average number of employed persons in low income households was 0.5 compared with 1.5 for middle income households and 1.9 for higher income households.<sup>20</sup>
- 5.7 The important message from this analysis is that the chief cause of poverty, or residing in a low income household, is not low pay, but rather no pay.

## **The problem of jobless households**

- 5.8 In Chapter 3, the Australian Government presented data demonstrating that Australia continues to enjoy strong labour market conditions. Nevertheless, some groups, on average, continue to experience some labour market disadvantage. One particularly important group in this regard is jobless households. Lone parents head a number of these households.
- 5.9 While the incidence of jobless households in Australia has fallen in recent years, we have one of the highest rates of household joblessness in the OECD.<sup>21</sup> Families with no employed parent can experience the combination of both economic disadvantage, and reduced social opportunities, through the isolation associated with unemployment.

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<sup>20</sup> *ABS Household Income and Income Distribution 2003-04*, (Cat. No. 6523.0) Table S2. This information is only available on the ABS website (<http://www.abs.gov.au>). Low income households are defined by the ABS as those households in the second and third income deciles. Middle income households are those in the third income quintile. High income households are those in the fifth income quintile.

<sup>21</sup> OECD, *Society at a Glance: OECD Social Indicators 2005 Edition*, page 39. In 2000, Australia was ranked the fifth highest country in the OECD in terms of incidence of individuals living in households with a working age head where no one works. The countries experiencing a higher rate of household joblessness were Poland, Germany, Hungary and Great Britain.

- 5.10 A study completed recently for the Government by the Melbourne Institute found a number of negative consequences associated with household joblessness.<sup>22</sup>
- 5.11 Living in a jobless household increases the odds of a marital/partnership break-up by 1.7 times compared with a household in which a member was working.<sup>23</sup> The study also found that the chances of individuals in jobless households marrying or partnering are about half of those of individuals in households where a member was working.<sup>24</sup>
- 5.12 Around 14 per cent of working age individuals (aged 15 to 64 years) lived in jobless households in each of the years between 2001 and 2003. However, 8.2 per cent were persistently in jobless households for all three of these years.<sup>25</sup> In terms of households headed by prime aged persons (aged 25 to 54 years), those headed by lone parents had a jobless persistency rate over the three year period of 23.8 per cent<sup>26</sup> while households headed by prime aged disabled persons had a three-year joblessness rate of 28.3 per cent.<sup>27</sup>
- 5.13 Between 2001 and 2003, close to 50 per cent of children in single mother households were in jobless households in each year while close to 30 per cent were persistently in jobless households for all three years. The authors also found that close to three-quarters (73.3 per cent) of the children who were in persistently jobless households between 2001 and 2003 were in lone parent households.<sup>28</sup>
- 5.14 Data from the 2002 ABS *General Social Survey* show that jobless households were much more likely than households in which at least one individual was working to experience financial stress, such as the inability to raise at least \$2,000 in a week in case of an emergency or pay their electricity, gas or telephone bills on time.<sup>29</sup>

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<sup>22</sup> B Headey and S Verick, 'The Dynamics of Jobless Households: Longitudinal Analysis of the Persistence of Joblessness using HILDA data for 2001-2003', November 2006. Report for DEWR under the Social Policy Research Services (SPRS) Agreement between DEWR and the Melbourne Institute.

<sup>23</sup> Ibid, page 49.

<sup>24</sup> Ibid, page 8.

<sup>25</sup> Ibid, page 20.

<sup>26</sup> Ibid, pages 18-19.

<sup>27</sup> Ibid, page 23.

<sup>28</sup> Ibid, page 25.

<sup>29</sup> Data from ABS *General Social Survey*, 2002 cited in article 'Family Functioning: Families with no employed parent' in ABS *Australian Social Trends*, 2004, page 49.

## The importance of low paid work to unemployed persons and persons not in the labour force

### *Labour market outcomes of non-employed persons*

- 5.15 Low paid work can serve as an important entry point to the workforce for people who are unemployed and those who are on the fringes of the labour force.<sup>30</sup>
- 5.16 Examination of data from the HILDA survey show that an average of 42.1 per cent of unemployed people and 6.4 per cent of persons who were not in the labour force in one year found paid employment in the following year over the period between 2001 and 2005 (see Table 5.3).

**Table 5.3: Percentage of non-employed people who found paid employment in the following year**

	<b>Unemployed in t and Employed at t+1 (%)</b>	<b>Not in the Labour Force at t and Employed at t+1 (%)</b>
<b>2001 to 2002</b>	36.8	6.3
<b>2002 to 2003</b>	42.3	5.8
<b>2003 to 2004</b>	45.0	6.3
<b>2004 to 2005</b>	44.5	7.2
<b>Avge for 4 periods</b>	<b>42.1</b>	<b>6.4</b>

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

- 5.17 Table 5.4 below shows the results of cross-sectional analysis of persons who were either unemployed or not in the labour force in one year and found a job in the following year.<sup>31</sup> In particular:
- an average of around 28.1 per cent of people who were unemployed in one year and secured a job in the following year (in the period between 2002 and 2005) found a low paid job; and

<sup>30</sup> The following analysis refers to outcomes for unemployed persons and persons not in the labour force who were aged 21 years and above and does not include full-time students. Analysis was restricted to those respondents who offered sufficient information to allow hourly wage rates to be calculated. Low paid workers are defined in this submission as those workers earning up to two-thirds of median weekly earnings. This threshold is the one most commonly used in international studies of earnings mobility of low paid workers. The Government calculated hourly wage rate thresholds for low paid workers using 5 waves of the HILDA survey. The hourly rate for workers on two-thirds of median earnings is slightly above the wage rate of those workers on the FMW in each of the years between 2001 and 2005.

<sup>31</sup> Note that the data only refer to outcomes where the Government could calculate a wage rate for those who found employment.

- an average of around 28.6 per cent of people who were not in the labour force in one year and secured a job in the following year (between 2002 and 2005) found a low paid job.

5.18 In comparison, the average incidence of low paid employment among all employees between 2002 and 2005 was 12.7 per cent.<sup>32</sup> This shows that a non-employed person who found a job in the following year was more than twice as likely to be in low paid employment as a person who was already in the workforce.

**Table 5.4: Wage outcomes of persons who were unemployed or not in the labour force in one year and employed in the following year (%)**

	Unemployed at t and Employed at t+1		Not in the Labour Force at t and Employed at t+1	
	Low Paid t+1 (< 2/3 median earnings)	Higher Paid t+1 (> 2/3 median earnings)	Low Paid t+1 (< 2/3 median earnings)	Higher Paid t+1 (> 2/3 median earnings)
2001 to 2002	32.8	67.2	27.8	72.2
2002 to 2003	29.2	70.8	28.4	71.6
2003 to 2004	23.5	76.5	30.8	69.2
2004 to 2005	27.0	73.0	27.6	72.4
<b>Avge for 4 periods</b>	<b>28.1</b>	<b>71.9</b>	<b>28.6</b>	<b>71.4</b>

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

Note: These data refer to the wage outcomes of people who were unemployed or not in the labour force in one year and were employed in the next (where a wage rate could be calculated).

5.19 Once people gain a foothold in the workforce in the form of a low paid job, the chances of securing sustained employment and a higher paid job in the future increase. Table 5.5 shows in more detail the wage and labour market transitions of respondents who were either unemployed or not in the labour force in 2001.<sup>33</sup>

5.20 Among the key findings are:

- around 23.9 per cent of persons who were unemployed in 2001 were in higher paid jobs in 2002. This percentage increased to 37.6 per cent by 2005;
- only 14.7 per cent of persons who were unemployed in 2001 were still unemployed in 2005, with 57.3 per cent in paid work; and

<sup>32</sup> See the section on incidence of low paid workers in Chapter 6 of this submission.

<sup>33</sup> These data also include employment outcomes where a wage rate could not be calculated.

- approximately 9.2 per cent of persons who were not in the labour force in 2001 were in higher paid jobs in 2002. This percentage increased to 16.5 per cent by 2005.

**Table 5.5: Wage and labour market transitions of persons who were unemployed or not in the labour force in 2001**

	Low Paid (< 2/3 median earnings)	Higher Paid (> 2/3 median earnings)	Emp but no wage rate <sup>34</sup>	Unemployed	Not in the Labour Force	Total
<b>2002</b>						
Unemployed (in 2001)	13.3	<b>23.9</b>	4.1	33.0	25.7	100.0
NILF (in 2001)	3.1	<b>9.2</b>	2.8	4.5	80.3	100.0
<b>2003</b>						
Unemployed (in 2001)	14.7	<b>30.7</b>	4.1	21.6	28.9	100.0
NILF (in 2001)	4.5	<b>10.8</b>	4.9	3.3	76.5	100.0
<b>2003</b>						
Unemployed (in 2001)	14.2	<b>34.9</b>	7.3	14.7	28.9	100.0
NILF (in 2001)	5.4	<b>12.9</b>	4.8	2.9	74.0	100.0
<b>2005</b>						
Unemployed (in 2001)	12.4	<b>37.6</b>	7.3	14.7	28.0	100.0
NILF (in 2001)	5.3	<b>16.5</b>	5.1	3.5	69.7	100.0

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

## Importance of low paid work in reducing welfare reliance

### *Introduction of the working credit and welfare to work measures*

- 5.21 The Government's Welfare to Work policies are designed to encourage more people on income support to look for work.
- 5.22 These initiatives seek to overcome barriers that existed on both sides of the labour market. These barriers include those faced by individuals in finding or keeping a job or rejoining the workforce after a period away from work, and barriers that employers have to overcome if they wish to create more flexible jobs and recruit a more diverse workforce.
- 5.23 The Welfare to Work package contained new eligibility criteria and participation requirements. These include changes for principal carer parents whose youngest child has turned six who are required to work or

<sup>34</sup> These are survey respondents who are classified as employees but did not provide a wage rate during the survey.

look for work of at least 15 hours per week. Existing recipients are not required to look for work until 1 July 2007 or when their youngest child turns seven (whichever is later).

### ***Recent trends in income support reliance***

- 5.24 HILDA data show that the incidence of welfare reliance among individuals aged 21 to 60 years has fallen slightly from 19.4 per cent in 2001 to 18.1 per cent in 2004.<sup>35</sup> Welfare reliance is defined as the situation where more than a half of individual financial year gross income is accounted for by government payments, including income support payments, family tax benefit and child care benefit.
- 5.25 The Government has introduced various initiatives to encourage more people on income support to look for work. For example, the Government introduced the Working Credit Scheme in late September 2003 which allows people on NewStart Allowance to keep more of the income they receive from part-time work while continuing to receive part-income support.
- 5.26 The proportion of job seekers receiving NewStart Allowance and Youth Allowance (Other) that earned income from work rose from 17.8 per cent in October 2003 to 22.4 per cent in November 2006. Incidence of earned income among women on unemployment allowance was higher than for men (28.7 per cent compared with 18.8 per cent).
- 5.27 Similarly, there has been an increase in the incidence of persons on other forms of income support receiving earnings from paid employment. For example, the incidence of persons on Parenting Payment Single who received earnings from work rose from 27.1 per cent in October 2003 to 36.9 per cent in October 2006.<sup>36</sup>

### **Transfer payments, earnings and incentives to work**

- 5.28 The Government demonstrated in its submission to the Commission's 2006 Minimum Wage Review that the transfer system provided substantial assistance to low paid workers and low income households.<sup>37</sup>

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<sup>35</sup> Note that these data predate the introduction of the Government's Welfare to Work initiatives in July 2006.

<sup>36</sup> DEWR administrative data.

<sup>37</sup> Australian Government Submission to the Australian Fair Pay Commission 2006, pages 101-106.

- 5.29 In its submission, the Government modelled the interaction between the tax-transfer system and the wages system to establish the potential rewards to households from a member finding a low paid job. The Government assessed a broad range of hypothetical households including lone persons, couples with no children, and lone parents and couples with dependent children (or students) of various ages.
- 5.30 This analysis considered the potential impact of earnings from a low paid job on combined household income from sources such as income support (Newstart Allowance or Youth Allowance), other transfer payments (such as Parenting Payment and Family Tax Benefits) and other earnings (if other members of the household were already receiving earned income from employment).
- 5.31 The modelling established that of the household scenarios analysed, incentives to take on low paid work were highest for single adults and lone parents with one child. While financial incentives to take on a low paid job were lower for couples and some lone parent households with dependents, they were still substantial.

## **Conclusion**

- 5.32 The strength of the economy and the labour market continues to provide employment opportunities for less skilled and more disadvantaged job seekers. Many less skilled job seekers enter the workforce through a low paid job.
- 5.33 While the problem of household joblessness persists to some degree, there is now less reliance on income support among some beneficiaries, declining numbers of long-term unemployed persons, and greater numbers of less skilled people finding work.
- 5.34 As detailed in Chapter 3, the economy is experiencing very high levels of capacity utilisation, particularly in the labour market. The unemployment rate remains close to 30-year lows, employment growth is strong, and the participation rate at a near record high. The Government is committed to raising participation in the labour force further to combat the implications of an ageing population on economic and employment growth.
- 5.35 Given these developments it is important when making its 2007 Minimum Wage Review decision that the Commission finds the right balance

between the financial needs of low paid workers and preserving opportunities for the unemployed to enter the workforce through low paid work.

