

Low Pay and Family Poverty

The phenomenon of working poverty in Australia is real and is growing.

TRACING THE LINKS

To be in paid work but poor used to be a contradiction in terms in Australia's 'wage earners' welfare state'. In the early 1970s, the Commission of Enquiry into Poverty estimated that less than 2 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, having employment is 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, the political fallout could be substantial, since a significant element of the support attracted by One Nation appears to stem from the anxieties of people who feel themselves stuck on the margins of poverty in spite of their paid labour.

The ACTU's Living Wage Case 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). Yet many low-paid workers live in better-off households, and the links between individual and family income status are complex.

Certainly there is greater inequality in the distribution of earnings. The Accord in the 1980s contributed to a fall in real wages at the lower end and a widening of the gap between low and high incomes. The subsequent shift towards enterprise bargaining and individual agreements have seen this process continue. Since 1993, people in the top quartile of pay outcomes under enterprise agreements have received annual increases of at least 5 per cent, whereas those in the bottom quartile have received only 2–3 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 in line with the 'benchmark' Henderson poverty line for a family of four, but in the 1980s they began to fall below it (ACOSS 1997).

However, family income is not determined only by the primary earnings of individuals. It is also affected by family composition and the number of earners. Women's participation in paid work has grown substantially in recent decades, although much of the increase has come in part-time work, while that of men has dropped. Yet the opportunities for women

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have not expanded evenly across socio-economic groups and there is growing polarisation between women in and out of the labour force (Probert 1997). This is also contributing to a polarisation between dual-earner families and those with only a part-time earner (or no earner at all).

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 have continued to expand both in scope and value in the early 1990s (Eardley 1997). 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).

A study in progress at the Social Policy Research Centre suggests that a trend towards working poverty has accelerated in the 1990s, and this article draws on the research to trace the links between individual low pay and family poverty. The first question concerns what is happening to wages. Are more people getting low pay and if so who are they?

Trends in Low Pay

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*. For comparison over time and with other countries, the measure used here is a relative one, based on an

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 (see Eardley 1997, 1998, for further discussion of low pay measurement issues).¹

As Australia currently has a system of 'junior' wages payable to people under 21, a lower threshold has been applied to them. Here we use a junior low pay threshold of 52.6 per cent of the adult threshold, based on the ratio established in the Australian Industrial Relations Commission (AIRC) 1997 wage case ruling, which set a minimum hourly wage of \$5.00 for juniors (\$9.50* 0.526).²

Table 1 shows the trend in receipt of low pay, based on data from the ABS Survey of Income and Housing Costs (SIHC). Contrary, perhaps, to expectation, there does not seem to have been any substantial overall change in the rate for adults, although the absolute numbers have increased in line with the growing workforce.

However, the trends are quite different for men and women. Low pay for men has been rising steadily, while for women it has been declining, such that their risk of being in low pay 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 three-quarters of the total increase (from around 460,000 persons in low pay in 1981–82 to 660,000 in 1995–96). In spite of the relative improvement in women's hourly rates of pay, however, the proportion with low levels of *weekly* earnings remains considerably greater than that of men because women are more likely to work part-time.

Since by definition half of all employees must have rates no higher than the median, Table 1 implies that just under 40 per cent of all adult employees have hourly pay rates clustered between two-thirds of the median and the median itself. This means that in spite of a widening earnings gap overall, Australia continues to have a relatively flat earnings distribution at the lower end. Even if young people are not assigned a lower threshold, the proportion of employees with low hourly pay only rises to 14 per cent in the mid-1990s, compared with 22 per cent in the UK in 1994, based on the same relative measure (Webb et al. 1996).

What is more striking 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, having been declining up to then. There are some uncertainties about the comparability of SIHC data on young people with those from earlier surveys, but one explanation may lie in the shrinkage of the pool of young people in the labour market and not in education or training.

The proportion of young people aged 15–19 not in education but in the labour force has dropped from just over half in 1979 to only 28 per cent in 1998 (ABS 6203.0, various dates). By contrast, the proportion in education and also in the labour force increased from 8 per cent in 1979 to 28 per cent in 1998. In the early 1990s there appears to have been a sharp increase in part-time work – often with very short hours and disproportionately concentrated among the lowest paid. This suggests a shift in the availability of youth employment towards low-paid, part-time, casual work, and is clearly also influenced by greater numbers of students accessing part-time work. Not only are an increasing proportion of young low-paid workers primarily students, but also most of them live with their immediate family or other relatives – nearly 84 per cent of all waged workers aged under 21 and virtually all the young low paid.

Aside from sex and age, the low paid are in many ways similar to other employees. Low-paid workers are less likely to be or to have been married than other workers, which is not surprising given that many are young. Single employees and working sole parents are also more likely to be low paid than members of couples, as are those with few or no qualifications. Interestingly, the proportion of the low paid who were in full-time work rose between 1981–82 and 1995–96 from just under 60 per cent to nearly two-thirds.

Part of the change over time in the percentage of employees receiving low pay reflects an industry shift towards lower wage sectors. 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 services’ sector actually fell, from 45 to 19 per cent, but the absolute number of low-paid service workers increased by around 25,000 because the sector expanded from employing less than one per cent of all workers in 1981–82 to nearly 4 per cent in 1995–96.

One important question is how far low pay is a special problem for migrants and people of non-English-speaking backgrounds. This is a matter of some controversy, since there are claims that an ethnic ‘underclass’ is forming in areas of Australia’s cities (Birrell and Seol 1998). The SIHC itself provides only limited information on ethnicity, but it does show that while still a small group, employees born overseas but outside Europe have nearly doubled as a proportion of the working population over this period. Their hourly pay situation, however, differs little from that of employees generally. 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.

Low Pay and Poverty

To see how far low pay and poverty overlap, we need to locate low-paid workers in the families where they live.³ Table 2 gives an indication of the change over time in the relationship between low pay and poverty.⁴ It shows the percentage of employees living in ABS-defined income units with equivalent disposable annual incomes below the Henderson poverty line, according to whether they were currently receiving low hourly pay rates.

Again, one of the most striking features of this analysis is the apparent surge in the percentage of young people living in poor income units, irrespective of whether they were low paid themselves, especially between 1989–90 and 1995–96. 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, the young low paid represent an increasing proportion of a shrinking population and many of them are students. Despite being counted as separate income units, many could not afford live on their own incomes alone without some assistance from their families.

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 employees did not live in poverty. More than one in ten low-paid workers did, but even amongst them the overlap between individual low pay and family poverty seems to have been small. However, by 1995–96 the rate of income poverty among waged workers apparently more than doubled, accounting for around one in five low-paid adult employees. This is a worrying development, but it is still a long way from saying low pay equals poverty. Clearly for a large majority of employees it does not. Much the biggest numerical increase in family poverty took place among those employees who were *not* low paid (from around 87,000 in 1981–82 to 327,000 in 1995–96).

Table 3 further illustrates the complex relationship between individual low pay and family income distribution. It places individual low-paid workers within the quintile distribution of equivalent income units. Thus, in 1989–90, just under 8 per cent of all employees and 20 per cent of those with low hourly rates of pay lived in families whose equivalent disposable income placed them in the bottom quintile.

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 doubling to over 17 per cent. Again, however, we see that this downward shift took place as much among those not low paid by our definition as amongst the low paid. While 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. It seems that individual low pay, while significant, is only one of the factors contributing to the increase in working poverty.

If we look at the characteristics of low-paid individuals in poverty we find that there has been a shift 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 than women in terms of low pay.

The growth in family poverty among full-time workers would seem to belie the proposition that poverty is mainly a problem for part-timers unable to get as much work as they need, unless even full-time work is becoming more casual and intermittent. This is a possibility, since a large proportion of all employment is now only

Table 1 Adults and juniors^(a) with low pay, 1981–82 to 1995–96

Year	Low Pay threshold	Percentage with low pay		
	2/3 adult median hourly rate ^(b)	Men	Adults Women	Persons
1981–82	\$5.64	5.4	18.1	10.2
1985–86	\$6.31	7.2	13.4	9.6
1989–90	\$8.00	7.5	12.5	9.6
1995–96	\$9.14	9.2	12.4	10.6
2/3 adult median hourly rate * 0.526 ^(b)		Juniors (under 21) ^(c)		
1981–82	\$2.97	12.6	9.4	11.1
1985–86	\$3.32	8.5	6.6	7.6
1989–90	\$4.21	6.0	6.4	6.2
1995–96	\$4.81	17.9	13.3	15.6

Notes: (a) Individuals included are those aged 15–64 (men) and 15–59 (women), receiving current income from employed work.
(b) Hourly pay rates are defined by mid-points in bands of reported working hours.
(c) 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.

available on casual or contract terms (Burgess and Campbell 1998). However, the SIHC data show that in 1995–96 the vast majority (93 per cent) of all employees were in work for at least three-quarters of the previous period (however long that was)⁵.

Just under a quarter of individual employees in families below the Henderson poverty line had less than this level of consistent paid work, compared with 5 per cent of those not in poverty. This suggests that while there is a relationship between intermittent employment and family poverty, it is not a conclusive one. Saunders (1994) estimated that in 1989–90, families headed by a full-year, full-time employee made up around 5.3 per cent of all those with incomes below the Henderson poverty line, up from 4 per cent in 1981–82. There are some difficulties in replicating the same full-year work indicator in the new SIHC survey, but our estimates suggest that this figure grew to nearly 12 per cent by the mid-1990s.

Conclusion

The findings reported here rely on judgments about appropriate measures for both low pay and poverty which are, of course, open to question. The analysis has also been restricted mainly to one data source and to a narrow concept of income poverty.

Nevertheless, it seems that the phenomenon of working poverty in Australia is real and is growing. 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. Yet the proportion of low-paid workers who are also in poor families is now about one in five. Partly this is due to the increasing prevalence of involuntary part-time and casual work. On the other hand, the proportion of employees in full-time work but still poor has also increased.

Letting wages fall at the bottom end of the distribution, as has been urged by business and some economists as a way of boosting employment, seems likely to exacerbate the working poverty problem further, even if the impact would not only be on those in or close to poverty, unless compensatory support is provided through the tax and social security system.

To increase family payments cannot be the whole answer, however. For a start, half the low paid in poverty do not have children. Extending income-related support to low earners without children, whether through social security or through a tax credit, would not only be costly but in the context of increasingly individualised wage bargaining might be captured over time by employers through even lower wages, unless a strong minimum wage platform is in place. Means-tested payments and 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. A danger is that if wages are allowed to fall on the assumption that family incomes will be protected by social security or tax, the payments may end up failing to meet their income support goals even while spending on them increases to the point where it loses public support.

Looking at it from the other perspective, what happens if we raise minimum wages? 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. On the other hand, the international evidence suggests that the negative impact of minimum wage increases on employment is exaggerated, for adults at least (OECD 1998).

Combating working poverty in Australia probably requires a combination of strategies, which might include judicious increases in safety net wages and awards affecting workers in low-wage industries, as well as carefully designed support through the tax and social security systems. Perhaps most important would be a recognition that, while not yet at US levels, working poverty in Australia requires serious policy attention if we do not want to build up intractable problems for the future.

Notes

- ¹ 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 Australian Industrial Relations Commission in 1997 (AIRC 1997). The 1994–95 threshold used in the SPRC study (\$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). Our threshold thus captures people a little above as well as below the level set as a minimum.
- ² Actual junior award rates vary by industry and are set on a sliding scale according to 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 close to the AIRC minimum wage level, fluctuating between 0.48 and 0.53 over the period 1990 to 1996 (ABS, Catalogue 6306.0).
- ³ Strictly speaking it is the 'income unit', as defined by the Australian Bureau of Statistics, not the 'family' which is being measured here.
- ⁴ Poverty here is measured using the Henderson (detailed) poverty line which, for all its limitations, remains the most broadly accepted measure of income poverty.
- ⁵ 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.

Table 2 Percentage poverty rates amongst employees, 1981–82 to 1995–96

Income unit with equivalent income below HPL	Adults			Youth		
	Low paid	Not low paid	All employees	Low paid	Not low paid	All employees
1981–82						
Per cent	11.3	2.2	3.1	31.5	8.5	10.2
Numbers	48000	87000	139000	7000	26000	33000
1989–90						
Per cent	15.7	4.3	5.4	38.8	14.2	15.2
Numbers	85000	219000	304000	8000	65000	73000
1995–96						
Per cent	20.0	5.9	7.4	49.7	33.4	35.9
Numbers	132000	327000	459000	55000	210000	257000

Notes: (a) Low pay is as defined in previous table, using separate adult and junior thresholds
(b) Income is annual equivalent disposable income and poverty is determined using the relevant after-housing cost Henderson Poverty Line.
Source: ABS Survey of Income and Housing Costs unit record files.

Table 3 Individual employees by equivalent income unit quintiles, 1989–90 and 1995–96: percentage distribution

Year and low pay status ^(b)	Income unit quintiles ^(a)					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) ^(c)	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) ^(c)	1151	1333	1376	1428	1369	6658

Notes: (a) Because the quintile groups are based on the individual and income unit sizes vary across equivalent income groups, the numbers in each quintile are not the same.
(b) Low pay for adults and youth is based on their different respective thresholds
(c) Numbers are weighted and rounded to the nearest thousand.
Source: ABS SIHC 1989–90, 1994–95 and 1995–96, unit record files.

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News from the Family Court

Past Chairman of Institutes Board Retires from Family Court

Justice John Fogarty retired from the Family Court on 2 October 1998, after 22 years as a judge in that jurisdiction. Justice Fogarty had an active role with the Australian Institute of Family Studies, being the Presiding Member of the Institute's Board of Management from 1986 to 1990.

Justice Fogarty was appointed to the Court only weeks after its establishment in 1975, and during his time on the Bench was involved in a number of significant first instance and full court decisions. Many of these have been reported and have thus become a permanent testimony to the judge's role in the development of family law jurisprudence in Australia. Justice Fogarty was chairperson of the Court's appeal division from 1983 until his retirement, and also served in a number of extra curial capacities.

He was a member of the Family Law Council from 1980 until 1983 and chaired the Council from 1983 until 1986. He was also a leading player in the child support reforms of the mid-1980s, particularly as Chair of the Federal Child Support Consultative Group which was required to advise on the legislative formula which has become the basis of administrative assessment of child support in this country. The task of balancing the various interest groups affected by the scheme was an extremely difficult one which he achieved with great sensitivity.

Justice Fogarty showed his deep concern for children's wellbeing, matched with a refusal to bow to political censure, during his chairmanship of the Victorian Family and Children's Services Council. The two major reports he produced in 1989 and 1993 about the Victorian Government's role in the management of its child protection system made a number of recommendations for improvement. Most of these have been adopted by the Government.



Justice John Fogarty

In 1992 Justice Fogarty was awarded the Australia medal for his work in relation to family law reform and child support.

Undoubtedly Justice Fogarty will continue to play a pivotal role in the advancement of children's interests as a member of the advisory panels of the Australian Section of Defence for Children International and the Child Protection Society.

At his formal farewell, Justice Fogarty had this to say about the Family Law Act: 'I have read [the Family Law Act] many times over the years – its meaning is still unclear, and it changes with its environment. Family law really must develop out of society's perceptions of itself, its relationships, aspirations, wishes and standards, and not the other way around. That is, family law cannot impose standards on society, it needs to reflect the legitimate standards and aspirations of the society.'

Justice Fogarty's thoughtful contribution to the theoretical, practical and policy aspects of family law will long be remembered.

– **Margaret Harrison**
Senior Legal Adviser
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News from the Family Court