

Working But Poor? Low Pay and Poverty in Australia

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Abstract

The decentralisation of wage bargaining in Australia has led to a widening of the earnings gap. There has been talk of a new phenomenon of 'working poverty', where incomes in a significant number of households fall below the poverty line even when family members are in paid employment. This paper examines the growth of working poverty in Australia from the beginning of the 1980s to the mid-1990s. The analysis suggests that the phenomenon of working poverty is real and has been growing. 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 considerably. In the light of these findings the paper discusses the possible impact of policy approaches such as tax credits and higher minimum wages.

1. Introduction

In Australia's postwar 'wage earners' welfare state' (Castles, 1985), to be in paid work but poor has largely been a contradiction in terms. 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). Poverty was mainly a problem for those who could not get waged work.

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In the 1990s, having waged work seems less effective as a protection against poverty. The ACTU's recent Living Wage claims have expressly linked the question of low pay with that of household deprivation (Buchanan and Watson, 1997). The argument is that changes in the structure of employment and growing inequalities in the distribution of wages have been moving Australia in the direction of US-style 'working poverty'.

An alternative view is that wage increases at the lower end of the distribution tend to discourage job creation. The 'five economists', for example, called 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 (Dawkins et al., 1998).

There are differing views amongst labour market economists about whether freezing wages at the lower end of the distribution would have much impact on unemployment. Gregory (1998), for example, has argued that to achieve a significant reduction in unemployment would require an unacceptably large drop in minimum wages.

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. 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.

Measuring change in levels of working poverty depends on what we mean by it (Eardley, 1997). The central issue is whether it is seen as a question of individual earnings or total family income. Secondly, there is a problem of what constitutes 'working'. Previous estimates of poverty amongst those in work have tended to take the full-year, full-time worker as the norm (Burbidge, 1981; O'Connor and Smeeding, 1993; Saunders, 1994), but an increasing proportion of the work force is now employed part time, casually, on fixed-term contracts or as subcontractors.

The measurement of poverty itself is also controversial. The analysis reported in this paper uses the Henderson poverty line (HPL) as the main poverty standard. This has been the subject of some criticism in recent years, mainly on the grounds that updating methods have led to upward creep in the poverty lines over time relative to incomes as a whole (see Saunders, 1996, 1998; Harding and Szukalska, 1999, for a discussion of these criticisms). In spite of its limitations, however, the HPL remains the most broadly accepted measure of income poverty in Australia at present.

This article traces the links between individual low pay and family poverty, and looks at how the relationship has changed since the early 1980s. Section 2 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 tax and social security on family incomes. Section 3 then presents new analysis of the incidence and distribution of low pay between 1981-82 and 1995-96, using data from the Australian Bureau of Statistics (ABS) Income Distribution Surveys. Section 4 examines the link between low pay and poverty by locating individual employees in the income units where they live. Section 5 concludes the article with a discussion of the policy implications.

The analysis presented has some limitations. It uses a simple income poverty rate measure, which does not take into account poverty gaps or other factors such as non-cash benefits and services. Also, 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 lower 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.

2. 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, contributing 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. For example, 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 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

exacerbated 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. In 1970, women's participation rate was around 40 per cent overall, and 73 per cent of those in paid work had full-time jobs (ABS, 1986). Eighty three per cent of men were in the work force and 97 per cent of these worked full time. Currently, just under 54 per cent of all women are in the work force (ABS, 1998a), but much of the increase has come in part-time work, so only about 57 per cent of women workers 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. 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 overall it has produced an increased polarisation between dual-earner families and those with only a part-time earner (or no earner at all).

Taxes and transfers 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 as a response to an increase in child poverty, 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 gains in market earnings by higher paid families (Landt and Beer, 1998).

Some commentators have assumed that workers receiving the higher rate of means-tested family allowance are by definition 'working poor' (eg. Birrell, Maher and Rapson, 1997). I have argued elsewhere 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 (Eardley, 1997). Much of the growth in the clientele has resulted from expansion in the scope and generosity of payments. Nevertheless, payments do mainly go to people with incomes well below the average and their increasing significance has to be partly a response to a concentration of lower earnings amongst working families.

The evidence does, therefore, point to the possibility of greater working poverty. 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.

3. 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 workers' needs and those of the households in which they live. 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.¹

Why should we use imputed hourly rates rather than actual weekly pay, on which there are more data available? The main reason is that unlike some measures used in both national and international comparisons, this one allows us to include both men and women, and full- and part-time employees, on an equal basis, in recognition of the changed composition of the labour market (Webb, Kemp and Millar, 1996).

It should be noted, however, that the two-thirds threshold 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. 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 may have a large effect on the proportion of people on either side of the line.

Low Pay Estimates

Table 1 shows the 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,² while people working for more than 50 hours are assumed to be working exactly 50.

Contrary perhaps to expectation, Table 1 indicates that there has not 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. For men, there was little change in the 1980s, but a steady rise in the 1990s. For women, on the other

hand, the risk of being low paid has more than halved relative 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.

Table 1. Individuals^(a) with Low Pay: 1981-82 to 1995-96

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

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 jobs. 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.

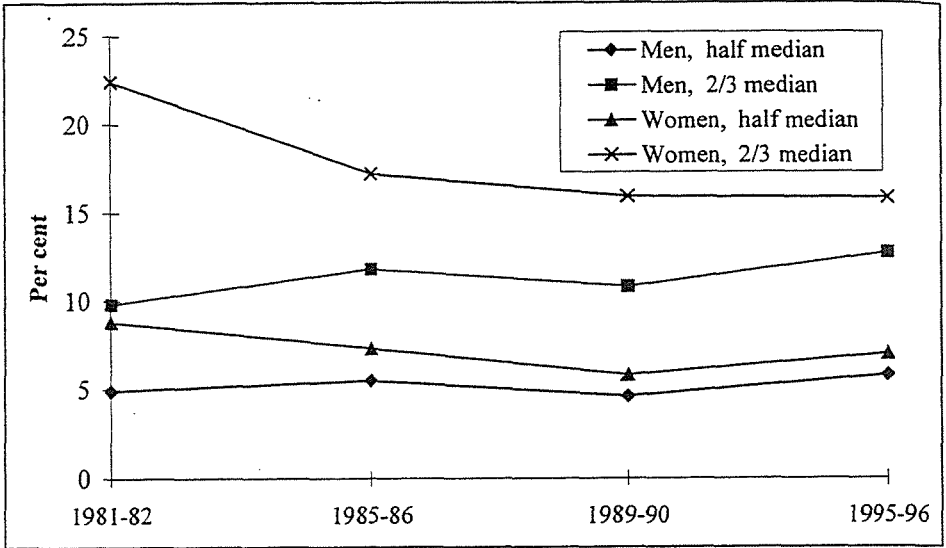
c) Numbers are grossed up using ABS weights and rounded to the nearest thousand.

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

Figure 1 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 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.

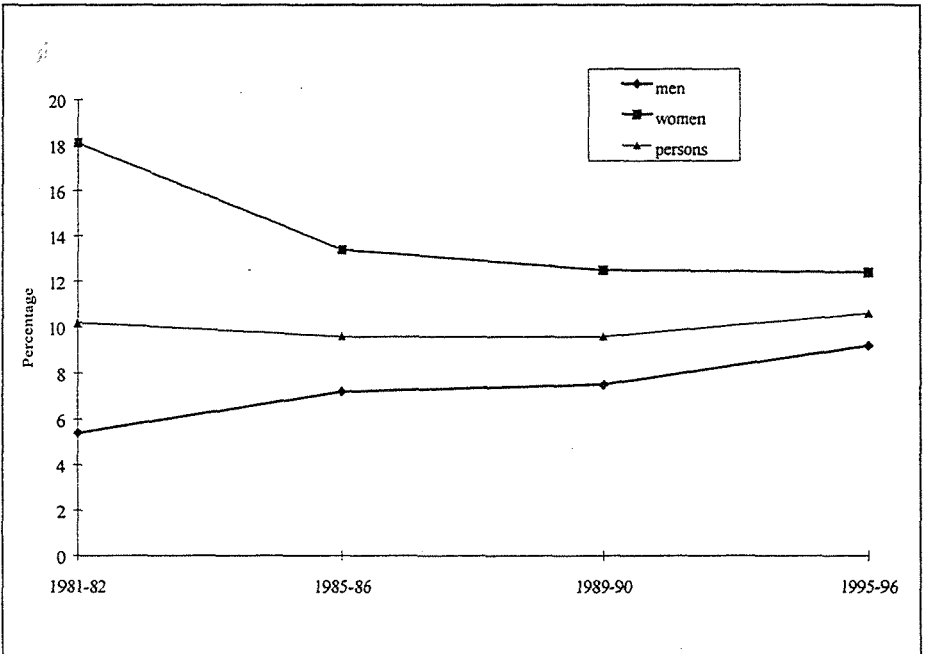
These results are consistent with OECD analysis of comparative trends in wage inequality, which suggests that despite fluctuations during the latter half of the 1980s, the dispersal of male full-time earnings between the top and bottom deciles was not much greater in Australia in 1990 than in 1985

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



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

(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, of course, since women are much more likely to be working part time. 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. In Australia, unlike most other countries, casual work comes with a loading that can make hourly rates higher on paper than those for full-time, non-casual work. This is one possible explanation for the rise in women's average hourly rates in parallel with an increase in part-time work.

Table 2. Prevalence of Low Pay^(a) by Age: 1981-82 to 1995-96

Age	Percentage in Low Pay				
	1981-82 ^(b)	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

As significant as gender here, however, is the difference by age. If we look at the prevalence of low pay among different age groups, we find that it is consistently high amongst young workers (Table 2). There are no clear patterns of change for other age groups, except for signs of a steady increase among those aged over 50. 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 represented 17 per cent of all employees but 48 per cent of the low paid, while in 1995-96 they were only 10 per cent of employees but still 45 per cent of the low paid.

For many years Australia has had a system of 'junior' wages payable to people under 21, so we would expect young people on average to be earning lower wages than adults. It is perhaps, therefore, more realistic to apply a junior low-pay threshold to workers in this age group. This analysis is

presented in Table 3. A junior low pay threshold of 52.6 per cent of the adult threshold is used, based on the ratio established in the AIRC 1997 wage case ruling, which set a minimum wage of \$5.00 for juniors ($\$9.50 * 0.526$).³

Table 3. Adults and Juniors^(a) with Low Pay: 1981-82 to 1995-96

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

Separating out young people from adults has the effect of raising the adult median wage and thus also the low pay threshold, 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 (Figure 2).

One striking feature of Table 3 is that the rate of low pay for young employees appears to have more than doubled in the 1990s, even on the basis of a junior threshold. 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.

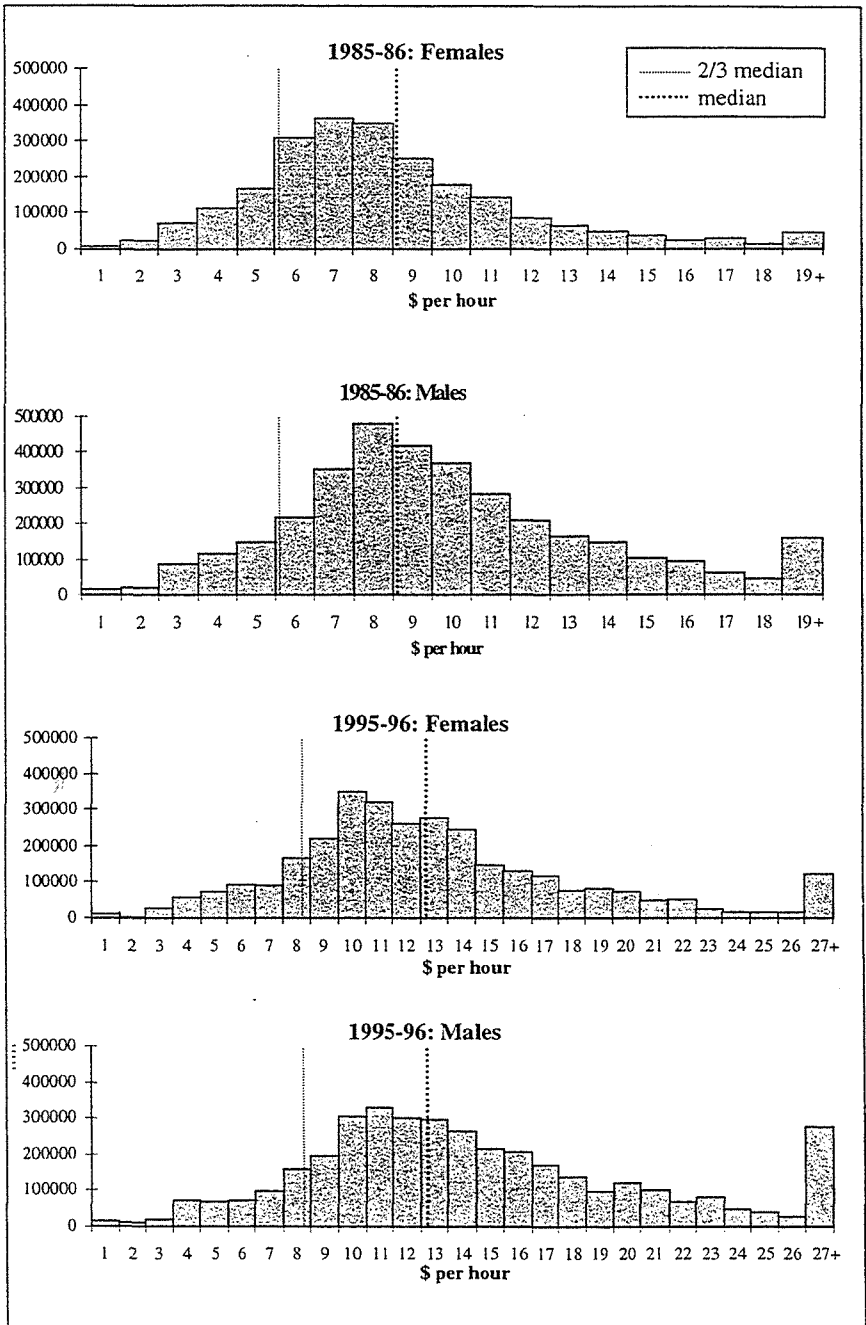
In the last two decades, the proportion of all those aged 15-19 years not in school or tertiary education but in the labour force has dropped dramatically, from just over half in 1979 to 28 per cent in 1998 (ABS, Catalogue 6203.0). This has led to a concentration of disadvantage amongst a shrinking pool of young non-students. 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 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.

Much of young people's work 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, we used the combined 1994-95 and 1995-96 ABS data set to look at the position of students. 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

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



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

family or other relatives. In 1994-96, 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. Research for the Dusseldorp Skills Forum has highlighted the particular problems facing young people who are neither in education nor fully employed (McClelland et al., 1998). Nevertheless, in numerical terms low pay amongst young people is predominantly an issue for those combining education and part-time work.

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. By definition, half of all employees must have rates no higher than the median, so around 40 per cent of adult employees have 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 of twice the median or more (represented by the final column in all charts). This is a graphic representation of the increase in earnings dispersal for both men and women, though it also shows that men's pay is distributed further into the upper regions than women's. However, in spite of the widening gap between low and high earners, it seems that Australia has retained a relatively flat wage distribution at the lower end. According to the same threshold as used here, around twice as many (22 per cent) employees were found to be in low pay in the UK in 1994, for example (Webb, Kemp and Millar, 1996).⁴

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

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

Year and characteristics ^(a)	Low Paid	Percentages 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

characteristics for 1981-82 and 1995-96. 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, perhaps the most interesting feature is that the proportion of the low paid who were in full-time jobs has risen from just under 60 per cent to nearly two-thirds, even though part-time work itself grew substantially. This 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 less likely than higher paid workers to be purchasing a home, although the gap has narrowed somewhat since 1981-82. One interesting question is whether low-paid single adults live on their own or in larger households, since we might expect many to find it hard to afford to live on their own even if they wished to. In 1995-96 just over 12 per cent of all single adult employees were in low pay by our measure. Of these, only 28 per cent lived alone.

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 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 that is consistent over time. 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. 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. Other research indicates that migrants from Asia and Oceania in particular are more likely to find forms of work - and hence rates of pay - below what would be expected from their qualifications and skills (Flatau, Petridis and Woods, 1995).

5. Low Pay and Poverty

To see how far and in what ways low pay and poverty intersect we need to locate low-paid workers in the families where they live.⁵ 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 the Henderson poverty line (HPL), 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. 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).

The data are perhaps more reliable as an indicator of what is happening amongst adults. In 1981-82, only three per cent of all employees lived in income units in Henderson poverty. Just over 11 per cent of low-paid workers were under the poverty line, but still the degree of overlap between individual low pay and family poverty seems to have been fairly small. Between 1982 and 1995 the overall poverty rate increased steadily, more than doubling amongst waged workers as a whole, but with a smaller increase amongst the low paid. It appears that by the mid-1990s more than 18 per cent of low-paid adult employees lived in Henderson poverty.

This is still a long way from saying low pay equals poverty. Clearly for a majority of low-paid employees it does not. Moreover, Table 5 shows that much the biggest numerical increase in family poverty (from around 87 000

Table 5. Percentage Poverty Rates Amongst Employees: 1981-82 to 1995-96^(a)

Year and poverty status ^(d)	Adults			Youth			Total Employed Work Force (numbers)
	Low Paid ^(b)	Not Low Paid	All Employees	Low Paid	Not Low Paid	All Employees	
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	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	478 000
1995-96							
Income unit with equivalent income below HPL	18.5	5.5	6.9	49.8	33.9	36.4	
Numbers	117 000	294 000	411 000	55 000	200 000	255 000	700 000

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) including housing costs.

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

in 1981-82 to 294 000 in 1995- 96) took place among employees who were *not* low paid.

Poverty measurement

It should 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.

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.⁶ 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.

These poverty estimates are based on the Henderson poverty line. As was noted earlier, it has been argued that this no longer provides a useful measure of poverty. One alternative is to use a threshold such as half the median income. This is commonly used in international comparisons where it is necessary to express poverty lines relative to differing national incomes. Table A1, appended to this article, therefore presents the same analysis as in Table 5, but using the half-median threshold. The equivalence measure used is the so-called 'square root' scale, where incomes are adjusted by the square root of the number of persons in the income unit. This scale is often used by the OECD and others in comparative studies, and falls around the middle of the range of alternative scales available. While other scales would produce differing levels of poverty, the pattern observable across the years would not be significantly affected.

Using this threshold clearly makes a substantial difference to the poverty estimates for adults (though less so for youth). The direction of the increase in poverty using the half-median threshold remains the same as indicated in Table 5, but the percentages are much smaller. Between 1981-82 and 1995-96, the Henderson poverty line for the reference family of two adults and two children, with one adult in work and before the family had met its housing costs, grew relative to the half median income for a similar family

from a ratio of about 1.1 to 1.4. This tends to support the argument that the HPL is a flawed measure of change in poverty over time. However, the median itself is strongly influenced by changes in the distribution of income. At \$410 per week for the reference family in 1995-96, it seems difficult to argue that the HPL has moved much beyond a fairly austere standard for contemporary Australia. In the absence of accepted poverty measures that demonstrate some clear connection with agreed levels of deprivation, deciding which measure to use becomes a question of judgement. At this point the Henderson poverty line remains a 'much-criticised but never-replaced devil' (Manning and de Jonge, 1996, p. 351), and continues to be used for the rest of the analysis in this article.

Low pay and income distribution

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 per cent of all employees and 19.8 per cent of those with low hourly rates of pay lived in families with equivalent disposable incomes in the bottom quintile. Over the first half of the 1990s, there was a substantial shift downwards into the bottom two income unit quintiles, with the percentage of all employees in the bottom quintile more than doubling.

Table 6. 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 quintile groups are based on the income unit and the number of employees in income units varies across equivalent income groups, the numbers in each quintile vary.

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

Again, however, we see that this downward shift took place proportionately as much amongst those above our low pay threshold as amongst those below it. 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 income quintile who were low paid actually fell slightly over the period, from 23.9 to 22.3 per cent. This is mainly because the proportion of employees in the lower income quintiles grew relative to the upper ones.

The characteristics of poor workers

It seems that individual low pay, while significant, is only one part of the story. As was mentioned earlier, 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 produced a concentration of lower earnings in poorer households.

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

Table 7 gives a breakdown of low-paid employees in income units below the HPL by key characteristics for the years at either end 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 have fared worse over this period than

women. The shift among 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, but also the impact of higher social security payments for working parents.

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

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

	Percentage of previous period in employment ^(a)			
	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 endnote 7

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 1994-96 (combined) according to the proportion of the period prior to the survey in which they were in work (however long that was).⁷ It also shows the percentage of all employees living in poor income units made up by those in work for different proportions of the previous period. The table indicates that while a relationship clearly exists between family poverty and less than full-year work for individuals, it is not a conclusive one. The vast majority of all employees (93 per cent) 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. Nevertheless, employees who had been in paid work for more than three-quarters of the previous period still constituted nearly 77 per cent of those in poverty.

This, however, does not tell us whether less than full-year work is also interacting with less than full-time work. 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

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

Labour Force Status of Reference Person ^(b)	1985-86			1989-90			1995-96 ^(a)		
	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	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 for explanation of categories

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

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 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 Saunders' categories of labour force status. He counted as FYFT all those employed for 50 weeks or more in the previous year, of which less than half was part time. The 'unemployed' were defined as 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 including part-time workers and short-term unemployed.

The most that can be done with the 1995-96 survey is to create the FYFT 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 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 poor families. Overall, poverty appears to have nearly doubled, to just under one-fifth of all income units. This estimate is close to that of the ABS (ABS, 1998b, p. 128).

One final question is how far working poverty amongst those families with a FYFT 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. Again, 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 not in fact changed a great deal. However, the overall growth in poverty amongst this group conceals considerable differences by family type.

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

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 per cent (although their propensity to be poor remained 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. The number of income units categorised as having a FYFT head rose 14 per cent, while the number of FYFT income units in poverty grew more than threefold, with two-fifths of this increase among single people.

6. Discussion

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. Nevertheless, it seems difficult to avoid the conclusion that the phenomenon of working poverty in Australia is real and 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 Henderson 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 has grown to nearly 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 people.

These findings need to be seen in perspective. The group which is still much more likely to live in poor families than even low-paid employees is the unemployed (Harding and Richardson, 1998), although with the increase in casual work more people are moving back and forward between these two statuses. In this respect the incentive structure built in to the relationship between low wages and social security remains largely intact. Nonetheless, having employment seems to be becoming a less effective safeguard against poverty than in the past.

So 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? There is an argument that any comprehensive package of measures to combat unemployment would need to include some form of wage restraint. However, as was noted in the introduction, there are doubts about how large the impact on unemployment would be, especially if such restraint was concentrated on awards rather than aggregate wages. If the effect 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. In effect, any extra earnings from employment would largely be shuffled amongst those with already low incomes rather than being redistributed from the better-off.

It is also probable that such changes would exert downward pressure on the level of social security payments, because of the continued concern about work incentives (Harding and Richardson, 1998). Unless a large number of unemployed people found work as a result, the effect would be to 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 (Dawkins, et al., 1998; Keating and Lambert, 1998). 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. Extending income-related support to low earners without children, however, whether through social security or through a tax credit, would be expensive. In the context of increasingly individualised wage bargaining it might also 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.

Tax credits can enhance incentives for unemployed people to take lower-paid work, but they can also exacerbate problems of high marginal tax rates and act as a disincentive for women in couples to look for work of their own. The US Earned Income Tax Credit (EITC), for example, has been popular politically in the context of withdrawal from provision of 'welfare', but it has had a fairly small impact so far on working poverty (Browning 1995; Chilman, 1995; Scholz, 1996). It is arguable that one of its main functions has been to legitimise further the low-wage sector of the economy. Its main impact has been on sole parents, but, as one of the EITC's main architects and proponents has recognised, their increase in participation would have been caused partly by the withdrawal of access to welfare (Ellwood, 1998). For couples the overall employment gains have been modest, not least since the tax credit appears to have led to a drop in participation by second earners (mainly women) (Dickert, Houser and Scholz, 1995; Eissa and Hoynes, 1998).

Even so, the cost to the US Government of the EITC was around \$28 billion in 1997 (Christian Science Monitor, 5 June 1998, p. 16), easily overtaking the federal share of expenditure on what used to be the main welfare program, Aid to Families with Dependent Children. It has been estimated that the 1993 expansion of EITC led to the equivalent of an extra 10,000 full-time jobs, in terms of extra hours worked (Dickert et al., 1995). At a cost of US\$7 billion this puts the price of each additional job at US\$700,000 (Mendelson, 1998). The large, poorly targeted expenditure which can flow from tax credit schemes is one reason why a similar program was abandoned in Canada – a country which has a social security system more like that of Australia than the US – to be replaced by an expanded child benefit scheme (Mendelson, 1998).

There is a danger that if wages in Australia are allowed to fall on the assumption that family incomes will be protected through tax credits, these payments may end up failing to meet their income support goals even while spending on them increases. The consequence might either be a cutting back of this compensatory support in the future, or (perhaps more likely) a shift

away from other forms of social security expenditure in order to meet the costs of tax credits.

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.

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 that minimises poverty traps. It may be too much, however, to expect social policy to deal with all the fallout from wage deregulation.

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.

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 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).
- 2 Using the actual reported hours for 1994-95 and 1995-96 has the effect of lowering the pay threshold slightly compared with that derived from the mid-point of hour bands. It 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.
- 3 Actual junior award rates vary by industry and are set on a sliding scale according to age. In the retail industry, 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).

- 4 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.
- 5 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.
- 6 It has recently been found that there are some issues of comparability of mid-1990s ABS annual income data with those from earlier surveys, and these are currently under review. However, using current income as an alternative does not solve all comparability problems, as the earlier survey model was based on one-off observations and that of the later era features ongoing data collection and hence a range of months and seasons.
- 7 In the post-1994 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.

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Table A1. Percentage Poverty Rates Amongst Employees: 1981-82 to 1995-96^(a), Using a Half Adjusted Median Income Threshold

Year and poverty status ^(c)	Low Paid ^(b)		Adults		All Employees		Youth		All Employees
	Low Paid ^(b)	Not Low Paid	Not Low Paid	Low Paid	Not Low Paid	Low Paid	Not Low Paid		
1981-82									
Income unit with equivalent income below 50% of the median	7.9	1.3	1.9	35.5	8.9	10.9			
1989-90									
Income unit with equivalent income below 50% of the median	7.9	2.3	2.9	38.3	12.7	13.8			
1995-96									
Income unit with equivalent income below 50% of the median	8.1	2.2	2.8	38.8	28.7	30.3			

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 disposable income and poverty is determined using a threshold of 50 per cent of the national median, equalised using the square root scale.

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