

What Role Do Safety Net Wage Adjustments Play In Alleviating Household Need?

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INTRODUCTION

Australian employees are divided broadly between three types of pay determination. The largest group, according to data collected by the Australian Bureau of Statistics (ABS) in May 2006, is covered by collective bargaining agreements. The next largest group is covered by individual bargaining agreements, which are usually informal and not registered with any statutory authority.¹ The third, and smallest, group consists of 'award-only' employees. For this award-only group, wages are fixed centrally through 'safety net adjustments' to award minimum rates of pay. For the period 1993 to 2005, these adjustments were made by the Australian Industrial Relations Commission (AIRC) through an arbitration process in which the interests of unions, governments, employers and some community and welfare organisations were represented.² Since 2006, the task of maintaining the wages safety net has passed to the Australian Fair Pay Commission (AFPC). For award-only employees, the minimum wage set in their award (or, more recently, their 'Pay Scale') is the effective rate of pay. There is no bargaining above the minimum applicable wage rate for these employees. Unlike in many other countries, however, the safety net in Australia consists of a large number of inter-related minimum wages. The minimum applicable to an employee depends on their occupation, age and State of residence in Australia. (The system is currently being reviewed and some existing awards consolidated in a 'modernisation' process.) The Federal Minimum Wage (FMW) is the entry-level wage in the current safety net, but this applies to less than 10 per cent of the estimated 1.67 million employees who still rely on awards and safety net adjustments (ABS, 2007a, p.25; ABS, 2007b, p.3).

This paper investigates whether the recipients of safety net adjustments (SNA) live in financially disadvantaged or 'needy' households. From 1997 to 2005, the needs issue was central to the minimum wage-setting process, because of a requirement that the AIRC have regard to 'the needs of the low paid' when adjusting the safety net (along with economic criteria and fairness) (see section 88B(2) of the *Workplace Relations Act 1996*). The Australian Fair Pay Commission has been under no similar legislative obligation to consider needs. However, in reaching its first decision about the safety net in 2006, the AFPC noted the importance of considerations about fairness, equity and adequacy in setting minimum wages (AFPC, 2006, pp.95-97).

The participants in safety net review cases have differed sharply over how to define and quantify needs. But they have generally agreed that needs should be evaluated at the household or family level, rather than for individual workers. This approach is reflected in academic studies showing that most low-paid workers in Australia do not live in households where the overall level of income is low (Healy and Richardson, 2006; Leigh, 2007; Wooden, Wilkins, and McGuinness, 2007). By locating workers in their households or families we analyse their needs in the context of a set of factors broader than their own wages, including their access to other (non-wage) incomes.³

¹ Excluding employees who are 'working proprietors' (owner-managers) in their own business.

² The decisions of the AIRC were applicable to employees in the Federal industrial jurisdiction but in most cases were quickly 'passed on' by the relevant State authorities.

³ 'Households' and 'families' are not the same, but for most practical purposes the difference is minor because very few households (2 per cent in this paper) contain more than one family.

DATA AND METHOD

The 2003-04 SIH and HES datasets

The data are taken from the Confidentialised Unit Record Files (CURFs) of the ABS Survey of Income and Housing (SIH) and Household Expenditure Survey (HES) for 2003-04.⁴ These surveys were undertaken concurrently for the first time in 2003-04, having occurred previously at different intervals with different samples of households. The SIH has a larger sample than the HES, but is narrower in scope. We use the SIH data to analyse household characteristics and incomes, and the HES data to analyse the incidence of 'financial stress'. In both cases, we use the Basic versions of the two CURF datasets.

Identifying SNA Recipients

The principal challenge for an analysis of this kind is how to identify the target group of employees reliant on award minimum wage rates and safety net adjustments. This challenge arises because the SIH and HES do not collect data on how employee pay is set. As the Commonwealth government noted during the 2001 *Safety Net Review* case, ABS household surveys are unlikely ever to include information on pay-setting methods, because it is widely believed that employers are the only reliable source for this type of information.⁵

Earlier researchers have not sought to identify precisely the recipients of safety net adjustments, but rather have focused on generic groups of low-paid workers. One approach has been to explore the household circumstances of workers paid up to or slightly more than the Federal Minimum Wage (Leigh, 2007; Richardson, 1998). Another approach has been to focus on employees in the bottom 10 or 20 per cent of the wage distribution (Wooden, et al., 2007). In some cases, the authors using these approaches have claimed that their methods identify the likely recipients of safety net adjustments. Wooden *et al.*, in the study cited above, justify their focus on the bottom 'quintile' (20 per cent) of wage-earners, by noting that: 'this is the same proportion of employees who, according to ABS 2004 Survey of Employee Earnings and Hours, were reliant on awards for pay increases' (Wooden, et al., 2007, p.301).

We take issue with the implication that such a method represents an acceptable way of targeting SNA recipients in the household incomes data. It is true that the bottom 20 per cent of adult wage-earners is almost identical *in size* to the group of workers paid by award-only; in 2006, the proportion of (adult non-managerial) employees paid by awards-only was 19 per cent. However, most of these award-reliant workers have wages above the bottom 20 per cent of the distribution. In 2006, the employees in the bottom 20 per cent of earners had wages below \$17 per hour. Only around one-third (35 per cent) of award-only employees had wages low enough to place them in this group. The remaining 65 per cent of award-only employees had wages above \$17 per hour.⁶ We argue, therefore, that studies concerned with workers at the bottom of the wage distribution will not necessarily reflect the needs of workers receiving safety net adjustments. Moreover, because most award-only employees have wages above the bottom 20 per cent, the bias will not be random. Estimates for the bottom 20 per cent of wage-earners are likely to show more adverse results than would be obtained if we improved the method of identifying safety net adjustment recipients.

⁴ A CURF is a micro-dataset with personal identifiers removed, for use in statistical analysis.

⁵ See DEWRB (2001, p.75).

⁶ Unpublished estimates from the May 2006 ABS Survey of Employee Earnings and Hours. The data, which were provided by the ABS, refer to adult non-managerial employees only.

We know from information collected in the Survey of Employee Earnings and Hours (EEH) that award-only workers, who receive safety net adjustments, predominate in low- and semi-skilled occupations. They are highly likely to work in sales and service, clerical or labouring jobs. We also know that award-only workers have, on average, lower wages within these occupations than workers covered by agreements (this is a by-product of the award system acting as a 'safety net', above which more privileged workers can bargain for higher pay). We use this information from the EEH survey to select a group of *likely* safety net adjustment recipients in the SIH and HES datasets.

We treat as 'award reliant' employees who are: (1) between 21 and 64 years; (2) in one of the key occupations listed below; (3) paid at least the hourly equivalent of the Federal Minimum Wage in 2003-04 (\$11.80 per hour); (4) and paid no more than the average, award-only wage in that occupation, as reported in the May 2004 EEH data and shown in Table 1. The occupations listed accounted for 75 per cent of male, and 77 per cent of female, award-only workers in 2004.⁷ We have observations for 1,748 likely SNA recipients in the SIH dataset and 1,037 observations in the HES dataset.

Table 1: Occupations and upper wage thresholds used to identify likely SNA recipients

Men	\$ per hr	Women	\$ per hr
Intermediate production/transport	≤ 16.80	Intermediate clerical/sales/service	≤ 16.70
Elementary clerical/sales/service	≤ 17.20	Elementary clerical/sales/service	≤ 16.10
Labourers and related	≤ 15.80	Labourers and related	≤ 15.70
Tradesmen and related	≤ 15.60		

Comparison Groups

We compare the living standards of likely SNA recipients, as defined above, with the living standards of two other groups. These are:

1. Adults of working age (21-64 year olds). This is our broadest comparison group. It includes non-workers, provided they are within the specified age range, but excludes children and most retirees. The estimates for this group provide evidence of average living standards in the adult population of working age. For some researchers, this is the 'policy-relevant' comparison group, since it includes all who could potentially work, rather than only those currently working (Wooden, et al., 2007, p.300). It thus provides an indicator of whether real wages could be reduced for low-paid workers (and perhaps replaced by a negative income tax), as a way of increasing employment without inducing further hardship. We have 16,664 observations for this group in the SIH dataset and 10,296 in the HES.
2. Adults of working age (21-64 year olds) in households where the primary source of income is wages and salaries. The results for this group provide evidence of average living standards among persons in households with at least one worker. For simplicity, we describe these as 'working' households. Not all persons in this group are *themselves* employed (e.g., the spouses, parents, or adult children of workers), but all are dependent on incomes obtained from the labour market. We have 12,071 observations for this group in the SIH dataset and 7,545 in the HES.

HOUSEHOLD CHARACTERISTICS

Table 2 examines average household size and composition in 2003-04. Estimates for the households where we find the likely recipients of safety net wage adjustments are shown in the column headed 'award reliant'. All estimates are weighted to represent the number of *persons* in each population, rather than the number of *households*.

⁷ These estimates are for adult non-managerial employees only.

Table 2: Household size and composition

	Aged 21-64	In Working HH	Award Reliant
<i>Average number of persons (no.)</i>			
Employed	1.70	2.02	2.14
Unemployed	0.10	0.08	0.08
Not in the labour force	0.62	0.42	0.34
Children under 15 years	0.63	0.64	0.55
Total	3.05	3.16	3.11
<i>Number of wage-earners (%)</i>			
None	14	0	0
One	31	33	29
Two	42	51	50
Three or more	13	16	21

The average award-reliant worker is in a household with approximately three people, including two employed people. Their households are typically smaller overall, with a larger number of employed persons, and smaller numbers of dependent children and persons outside the labour force, than the average working household.

The second panel of Table 2 classifies households by their number of wage-earners. It shows that 29 per cent of likely SNA recipients are the sole wage-earner in their household, compared to 33 per cent of adults in working households. The majority of workers receiving safety net adjustments are in households with multiple earners (71 per cent), and 21 per cent of them are in households with three or more earners.

These results provide a reminder of the commonality of dual-earner households, and the contributions that 'secondary earners' make to the overall financial circumstances of many Australian households. The connection between wages and needs cannot be very strong, even for the employees reliant on safety net adjustments, because in most cases their own wage is supplemented by a second (or third) wage obtained by someone with whom they live. We cannot know from the current data whether some secondary earners prefer fewer, or perhaps zero, hours of work, but have entered the labour market to rectify the perceived inadequacy of their household's primary wage.

INCOME

This section examines the sources and levels of income for households in which we find the likely beneficiaries of safety net adjustments. Following the standard practice in Australian studies we use *annual*, rather than *current*, income data (Leigh, 2007, p.438; Richardson and Harding, 1999, p.136; Watson, 2007, p.60). This allows us to include irregular and lump-sum payments (e.g., bonuses and one-off government transfers to families) that are excluded from current income measures. The reference period is the financial year from July 2002 to June 2003.

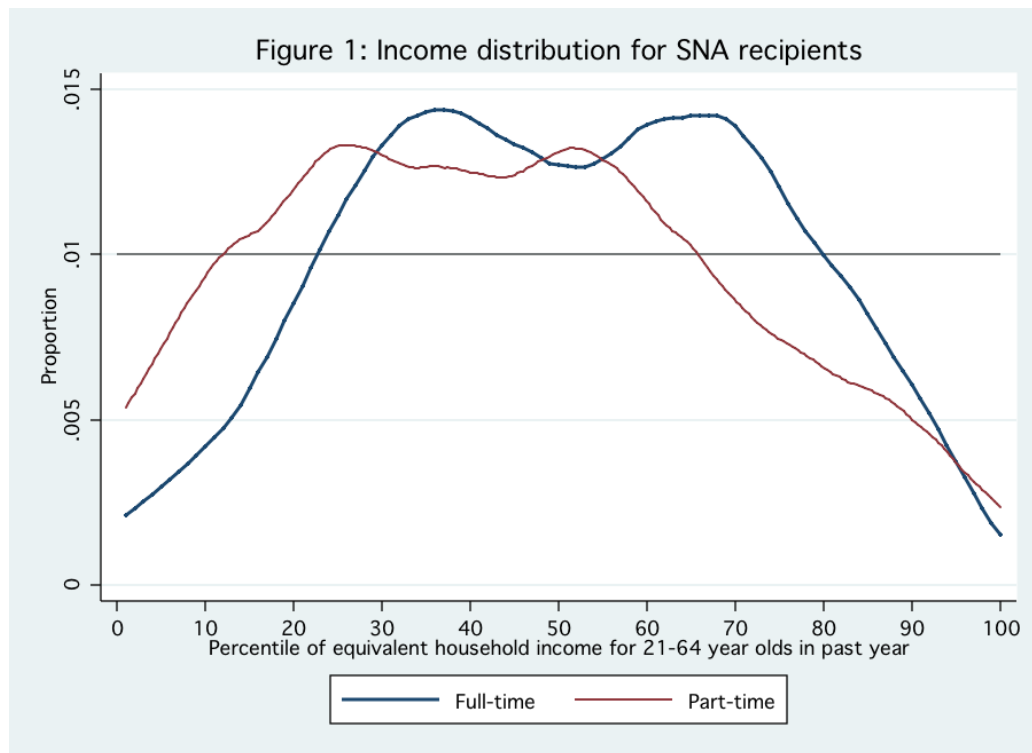
Distribution

Figure 1 shows where SNA recipients are situated in the annual income distribution, when the comparison population includes all persons aged 21-64 years. We show separately the positions of full-time and part-time workers, following McGuinness and Freebairn (2007), who first recommended this approach.⁸ The horizontal line at 0.01 represents the distribution of income by 'percentile' (i.e., 100 units), for the population of 21-64 year olds. When the distribution lines for likely SNA recipients are above the line at 0.01, we say they are over-represented in that part of the income distribution. If these workers were in households with exactly the same income distribution as the working-age population at large, their results would not deviate from the 0.01 line.

⁸ Part-time workers are those usually employed for less than 35 hours per week in all jobs.

The income measure in Figure 1 is *equivalent household disposable income* from all sources in the 2002-03 financial year. The use of 'equivalent' income reflects the fact that households of different size and composition have unequal needs. For instance, a household comprising two adults with dependent children needs a larger income than an adult living alone, to sustain an equivalent standard of living. The adjustment of income in this paper uses the 'modified OECD' equivalence scale, which has 'wide acceptance among Australian analysts of income distribution' (ABS, 2006, p.76)⁹

The income distributions in Figure 1 show that SNA recipients are not predominantly in poor households when the comparison population includes all persons aged 21-64 years. Of those who work full-time, 4 per cent are in households in the bottom 'decile' (lowest 10 per cent) of the income distribution, and 10 per cent are in the bottom two deciles. The median full-time SNA recipient is in a household at the 52nd percentile of the equivalent income distribution. There is stronger evidence that part-time workers reliant on safety net adjustments are concentrated in low-income households. Even for these workers, however, 40 per cent live in households with incomes above the median equivalent income for the population of working age. SNA recipients are thus not confined to the most 'needy' households based on incomes, although this is more likely to be the case for SNA recipients working part-time (Leigh, 2007; McGuinness and Freebairn, 2007; Richardson and Harding, 1999).



Breadwinners and secondary earners

One reason why SNA recipients might not live in low-income households is that they are not the main 'breadwinners' for their households. Using the data on earnings for each person in 2002-03, we ranked earners within their households and defined six,

⁹ This equivalence scale assigns a weight of 1.0 to the first adult in a household, 0.5 to each subsequent adult, and 0.3 to every child under 15 years. A household with two adults and two children under 15 years has an equivalence factor of 2.1. A single person has an equivalence factor of 1.0. Equivalent income is calculated by dividing the value of household disposable income by the relevant equivalence factor, for every person in the sample.

mutually-exclusive groups. For households with multiple earners, the 'primary' earner is the person with the highest annual earnings; 'secondary' earners are persons with lower (but not zero) earnings; and 'non-earners' are persons who received no income from employment. For households with only one earner, we distinguish 'earners' from 'non-earners'. The final group contains households without any earners in 2002-03.

Table 3 shows that half (49 per cent) of SNA recipients were the main breadwinners for their household in 2002-03. Most of these were in households with a single earner (26 per cent), while another 23 per cent were in multiple-earner households where they had the highest earnings during the year. Another 44 per cent of SNA recipients were secondary earners in their households. They are significantly more likely to be secondary earners than the typical adult in a working household (33 per cent).

In a separate analysis (not reported in Table 3), we estimated that male SNA workers are significantly more likely to be breadwinners than their female counterparts (65 per cent versus 36 per cent). Women reliant on safety net decisions are much more likely to be secondary earners in their households. This finding is important, because most of the beneficiaries of safety net decisions are women. It provides one explanation of why many SNA recipients are found in relatively high-income households (Figure 1).

Table 3: Earnings position in own household during previous year

% in each group	Aged 21-64	In Working HH	Award Reliant
Households with multiple earners			
- Primary earner	24	31	23
- Secondary or other earner	25	33	44
- Non earner	4	4	1
Households with one earner			
- Earner	20	20	26
- Non earner	11	10	2
Households without earners	16	2	3

Non-wage income sources

A second reason why SNA recipients might not live in low-income households is that their wages are supplemented by other sources of income, such as welfare benefits, business profits or superannuation.

Table 4 shows the values of incomes received from different sources in 2002-03. The average SNA recipient was in a household with gross income of \$65 thousand before tax, disposable income of \$54 thousand after tax, and an equivalent income of \$28 thousand after adjusting for household composition and size. Approximately 89 per cent of the gross income received by this employee's household was received from wages and salaries. The remaining income was obtained through welfare benefits (6 per cent) and other recurring sources (5 per cent). These results imply that the total value of non-wage incomes is low in the household of an average SNA recipient. By far the largest share of their income comes from participation in the labour market.

Table 4: Contributions from different sources to total household income during previous year

Mean income to nearest \$'000	Aged 21-64	In Working HH	Award Reliant
Gross income from all sources	71	81	65
- Wages and salaries	58	75	58
- Government benefits	5	3	4
- Other sources	8	4	3
Disposable income	56	63	54
Equivalent disposable income	30	33	28

FINANCIAL STRESS

We now investigate the extent of financial stress for households in which we find the likely recipients of safety net adjustments. This section uses data from the 2003-04 Household Expenditure Survey (HES). The financial stress items in this survey refer to actions that households have taken, at any time in the past year, due to a shortage of money. Households that took any of these actions experienced difficulty meeting their financial commitments from their current financial resources and are considered to have 'cash-flow problems' (ABS, 2006, p.32).

The nine financial stress items are listed in Table 5, ranked by their frequency among SNA recipients. None of the individual stressors were reported by more than 20 per cent of households. The most common type of financial stress in households of SNA recipients was the inability to pay a utilities bill (gas, electricity or telephone) on time. This type of stress was reported by 18 per cent of households with an SNA recipient, compared to 13 per cent of working households. The second most common type of financial stress in households of SNA recipients (reported by 16 per cent of these households) was the inability to raise \$2000 in an emergency. This result highlights the fact that SNA recipients are more likely to be in households which have difficulty coping with sudden, unavoidable expenses, because of their limited capacity to save. The data in Table 5 also show that the types of financial stress which are most likely to indicate abject poverty, such as going without meals and heating, are exceedingly uncommon in working households, including in the households of SNA recipients.

Table 5: Indicators of financial stress during previous year

% in each group	Aged 21-64	Working HH	Award Recipient
<i>Due to a shortage of money, this household...</i>			
Could not pay a utilities bill on time	16	13	18
Could not raise \$2000 in an emergency	14	10	16
Spent more than it received most weeks	18	16	16
Sought financial help from friends or family	10	9	13
Could not pay registration or insurance on time	6	6	8
Pawned or sold something	3	2	4
Went without meals	3	1	2
Was unable to heat home	2	1	2
Sought assistance from welfare organisations	3	1	2
<i>Number reported</i>			
None	63	68	60
One	20	18	19
Two	7	6	7
Three or more	10	7	13

Another way of using these data is to ask how many of the nine financial stress items are found in each household. These results are in the second panel of Table 5. Sixty per cent of SNA recipients are in households that did not experience financial stress of any kind during the previous year. SNA recipients are, however, more likely to live in households with multiple financial stressors than adults in all working households (20 per cent versus 13 per cent). In a separate analysis (not reported in Table 5), we found that the main difference between 'stressed' and 'unstressed' households is that households in the latter group are twice as likely to have multiple wage-earners.

CONCLUSION

This paper has examined statistical evidence on whether the recipients of safety net minimum wage adjustments in Australia live in financial disadvantaged households. Its central approach to assessing needs has been to compare the living standards of households with safety net adjustment recipients to the living standards of adults in all households where the principal source of income is wages and salaries.

There is substantial evidence to show that the households of SNA recipients are not more needy than other working households. On average, they have similar numbers of employed and not employed persons, and similar numbers of dependent children. Most SNA recipients are in households with multiple earners, meaning that their own low wages will typically be supplemented by the earnings of other people with whom they live. In this important sense, the low award wage is not a good representation of the overall living standard of many SNA recipients. This is the main reason why they are not especially strongly concentrated at the bottom of the income distribution.

It does not necessarily follow from this evidence that safety net wage adjustments fail to assist the neediest. The paper shows that half of SNA recipients (and 65 per cent of male SNA recipients) are their household's main breadwinner. A cut in the real value of award wages would thus erode the primary source of income for a significant proportion of award-reliant households. SNA recipients are also more likely to live in households that have experienced multiple types of financial stress in the past year. Unless offset fully by a reduction in tax rates, proposals to suspend or abolish safety net adjustments would merely worsen the financial difficulties these households face.

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