

Question on Notice: Stepping Stones effect

In their verbal evidence to the committee last week CCI WA made reference to a report from Department of Jobs and Small Business.

The analysis they referred to can be found in Table 7.2 on page 62 of the Australian Government Submission to fair Work Australia

Table 7.1: Duration in low-paid employment, per cent

Duration	Less than 1 year	1 to 2 years	2 to 5 years	More than 5 years
Proportion	66.2	18.0	13.3	2.5

Source: Department of Jobs and Small Business analysis using the *HILDA* Survey, release 17 (December 2017) balanced panels waves 1 to 17 with longitudinal weights.

Note: Data is based on flows into low-paid work, not the number of people in low-paid work at a point in time. Numbers are mutually exclusive.

Table 7.2: Destination on leaving low-paid employment, per cent

Duration in low-paid employment	Higher paid work	Left the labour force	Unemployment
Less than 1 year	76.1	16.8	7.1
1 to 2 years	77.3	15.3	7.4
2 to 5 years	81.8	12.2	6.0

Source: Department of Jobs and Small Business analysis using the *HILDA* Survey, release 17 (December 2017) balanced panels waves 1 to 17 with longitudinal weights.

Note: Those remaining in low pay for 5 years or more are not shown due to a small sample size.

We note that the HILDA analysis refers to low paid work (defined as less than two-thirds of the median hourly wage) rather than the Minimum Wage *per se*.

The discussion of these charts highlights that entry to the workforce is often through low paid employment, which may act as a stepping stone to a higher paid role over time:

“Over a third (36 per cent) of people who enter the workforce do so by taking a low-paid job. Low-paid jobs are a particularly important pathway for younger and less educated workers, with 41 per cent of workers aged under 25, and 41 per cent of those with Year 12 qualifications or below, entering the workforce through low-paid work.

Low-paid employment is often temporary and can act as a stepping stone. As shown in Tables 7.1 and 7.2, almost two-thirds of workers who enter low-paid employment leave within one year. Most of these move into higher paid work, and this is more likely the longer the worker has been in low-paid work. The median increase in hourly wages for those moving from low-paid to higher paid jobs was 58 per cent (Department of Jobs and Small Business analysis using the HILDA Survey).”

The analysis also highlights that younger workers are more likely to enter work into a low paid position – but does not give a comparative analysis of their comparative likelihood of moving on to a higher paid position over time.

In regards to setting the level of the minimum wage in WA, we note that the Commission must have regard for its fairness and adequacy in supporting minimum wage workers in relation to community living standards.

That the majority of workers who commence on low wages (and by inference potentially on the minimum wage) transition within 1-2 years onto higher wages does not imply that it can be justified to provide them with a lower level of support because it is only for a comparatively short time.

Furthermore, the Commission also needs to give consideration to the circumstances of that one third or so of the population who do not transition to higher wages but remain on low wages for a longer period of time – to ensure their income over that period is adequate and fair.

We note that the analysis referred to in the WACOSS Submission on pages 39 & 40 regarding the employment, participation and poverty rates of young people who have grown up in persistent poverty paints a different picture using data from the same source (ABS [HILDA](#)) - as presented at the WACOSS Emerging Issues Forum in 2018 by Rebecca Cassells.

This clearly shows that young people who have grown up in a household that has remained below the Henderson poverty line over an extended period are significantly more likely to experience poverty, unemployment and non-participation after leaving home, despite their change of circumstances.

The fact that the majority of those in entry level jobs reliant on the minimum wage may transition to higher wages does not take away from the needs of a significant minority who will persist on the minimum wage or in low paid employment for a significant period, and will rely on it providing an adequate income to provide a social safety net.

This is particularly true for the small but significant number of workers (particularly younger workers) who churn in and out of low paid work and unemployment benefits.

The [2019 ACTU submission in reply to the FWC](#) also commented on this issue:

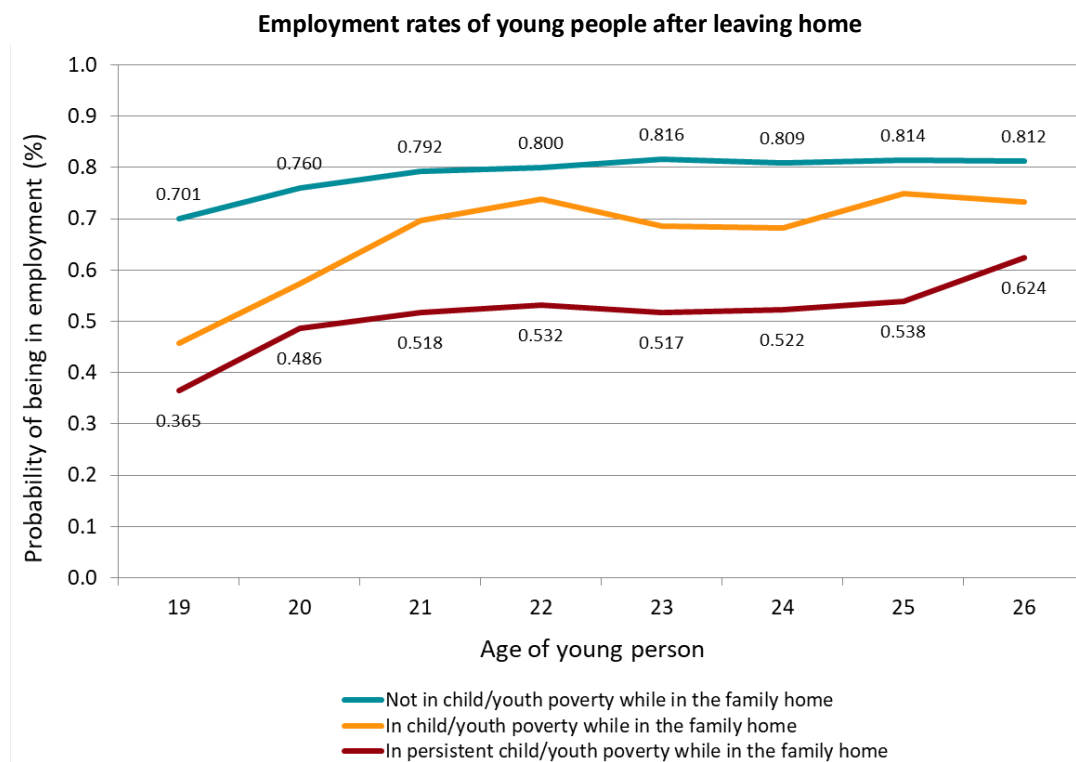
The Government submission does not address, on its own admission the total extent to which workers remain in low paid jobs for many years, nor the total proportion of workers in low paid jobs at any time, the standard of living of whom is most affected by the decisions of the Panel. These workers are not captured in the flows data provided in the Government submission. Nor does the Government submission indicate the extent of reverse flows, that is where people move from higher paid into lower paid work. The ACTU submits that the stock figures are more important metrics in assessing both relative living standards and the needs of the low paid, and social inclusion as reflected in class position. (paragraph 43)

Regards

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WACOSS

Appendix: Persistence of Poverty for young people

From the WACOSS submission:

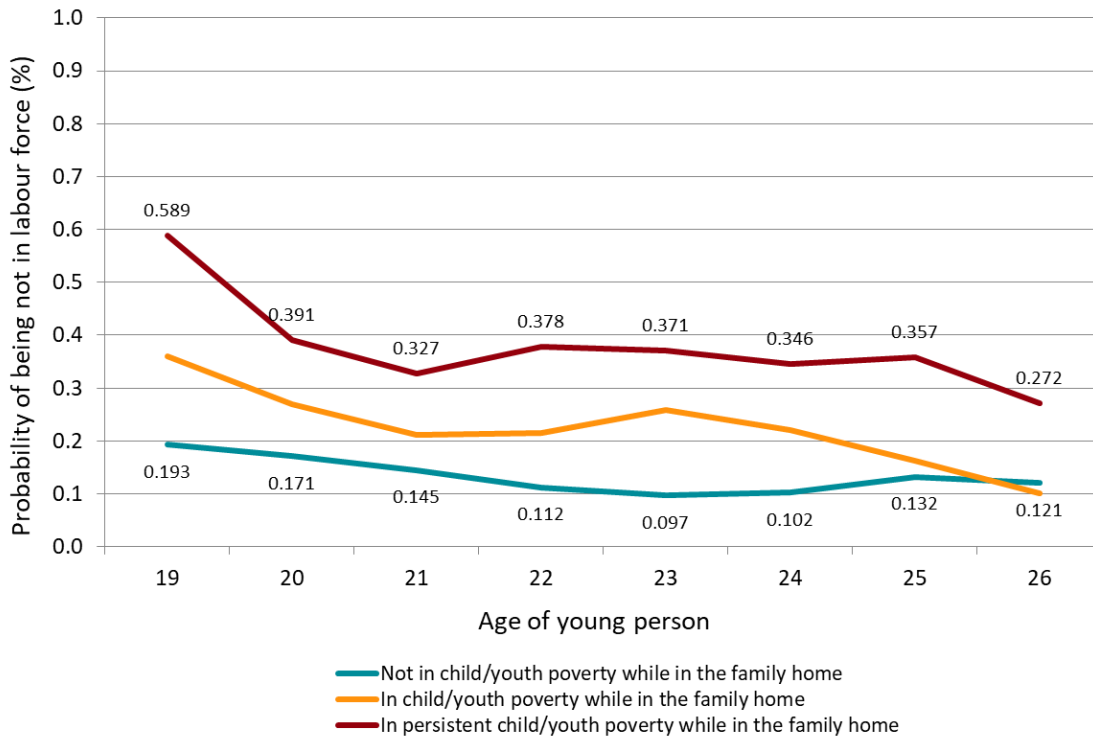


Source: Rebecca Cassells (2018) *Economic and Social Outlook for WA*, BCEC

Research by Bankwest Curtin Economics Centre has found that young people who have experienced poverty in the family home while growing up have much poorer employment outcomes than those that experienced a greater standard of living, and continue to experience poorer outcomes for many years after becoming independent. In particular, young people living in persistent poverty while in the family home had much poorer outcomes than all other groups, with a 36.5 per cent probability of employment at age 19 after leaving the home, compared to 70 per cent probability for those that did not experience any poverty. Seven years later, at the age of 26, they are still 19 per cent less likely to be unemployed than their counterparts.

Participation rates for young people who grew up in poverty are also lower after leaving home, with the probability of not being in the labour force at around 60 per cent at age 19, compared to 20 per cent for other households.

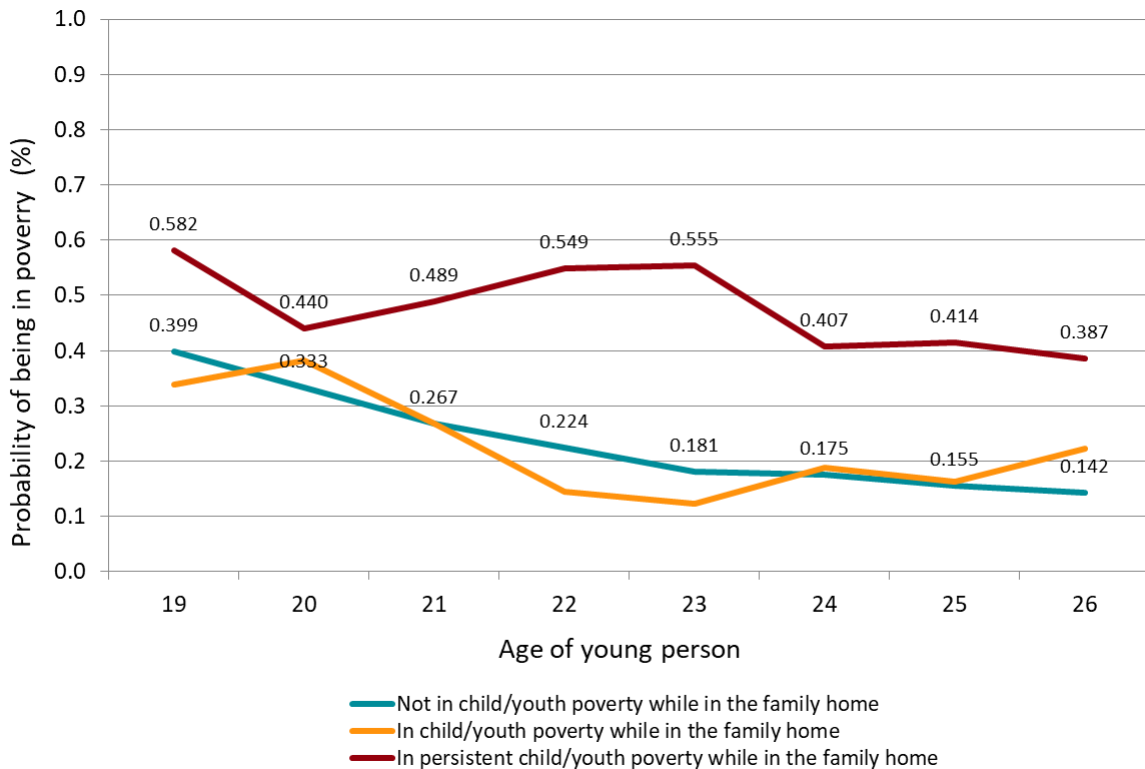
Non-participation rates of young people after leaving home



Source: Rebecca Cassells (2018) *Economic and Social Outlook for WA*, BCEC

The research also found that young people living in persistent poverty while growing up are significantly more likely to be in poverty after leaving home.

Poverty rates of young people after leaving home



Source: Rebecca Cassells (2018) *Economic and Social Outlook for WA*, BCEC

Young people, particularly those with backgrounds of hardship, are much more likely to be seeking and relying upon income from minimum wage positions, often moving in and out of short-term and precarious work. It is important to note the significant and persistent lag in poverty, participation and employment outcomes for young people making their own way in the world after emerging from persistent poverty. Compared to other young people, they lack the opportunity to call on family resources to meet unexpected financial costs or respond to periods of shortage, and often they may be providing ongoing support to parents and younger siblings still struggling with financial hardship.