HOUSEHOLDS, INDIVIDUALS AND LOW WAGES

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1. Introduction

For most of this century public policy in Australia has tussled with the reality that people are at the same time individuals and members of households. People earn wages and receive property income and pay income taxes as individuals and pool their income and expenditures as members of families and households. Indeed, the defining characteristic of a household is that its members share, to varying degrees, their income and expenditure. It was a notable advance in the collection of statistics in Australia when the Australian Bureau of Statistics commenced its income distribution surveys (in 1968/9), where income was for the first time collected on a family and household basis.

The public policy interest in the distinction between the household and the individual is the role that the household plays in determining the material standard of living of its members. Many people who earn no income of their own live in households where others earn, and are supported by those earnings. The household is a micro-welfare state, which supports the elderly, the sick, the unemployed, children and carers for children, the disabled and others who cannot support themselves. It uses the income of its earners or the asset-rich to do so. It has always been thus. But there have been two major developments

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1 I use the terms households and families in a loosely interchangeable way. On the definitions used by the ABS, a family is an adult plus partner if relevant plus any dependent children (all under age 16 and full-time students aged 16 to 24); a household is a group of people who share housekeeping arrangements. The household includes a wider range of relationships than does the family.

2 Prior to that, information on income was available only on an individual basis, and relied primarily upon income tax statistics and wage data (plus the occasional census).
One is the substitution of the State for the household in the support of dependents. The evolution of the welfare state can be seen as the transfer of responsibility for dependents from the household to the public purse. In both cases, the recipients of market income pay, but they do so in quite different ways. Where the support for dependents is provided directly by family members, then the level of support will vary with the private resources of the family. Some families will not have enough to be able to share in this way. Some people will not have families at all. Others will have families, but one's which are not prepared to share or which are not prepared to share without unacceptable conditions. From these circumstances arises the case for use of the public purse. Tax all recipients of market income and use this revenue a) to ensure that all families have enough to support their dependents or b) support the dependents directly. In the process, the direct demands on financially-independent family members who could and would support their dependents is reduced. The demands to pay tax are increased The total level of such transfers from the financially-independent to the financially-dependent may indeed scarcely have risen. But they are more visible and more comprehensive when they go through the public purse. They are also less personal, and the incomes of the financially-dependent are less tied to the financial circumstances and inter-personal dynamics of their families. At the time of federation in Australia, direct government income support to people who were unable to earn their own income was negligible. Today it represents one third of total government outlays, about 15 percent of gross household market income and 12 percent of gross national income.3

The second major relevant development of the century has been the changing nature of households and families. Households have become smaller, as people

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2 Prior to that, information on income was available only on an individual basis, and relied primarily upon income tax statistics and wage data (plus the occasional census).
3 Source, ABS national accounts, online data service.
have taken advantage of growing affluence to have more privacy and independence from other family members; families are smaller as birth rates have fallen; marriages are far less stable as divorce rates have risen (though this is somewhat offset by reduced mortality of prime-age spouses); the variety of living arrangements which are socially acceptable has become much more diverse; and the multiple income family is now the norm, as married women have moved into paid employment. These developments in the character and diversity of the family have major implications for the link between the standard of living of the individual and that of the household, as we shall see.

The distinction between the individual and the household is relevant to public policy in three domains. These are personal income tax, wage setting and government transfers in cash and in kind.

The personal income tax is just that—assessed on the individual and not on the family. But the structure of the personal income tax is based to some degree upon the idea of capacity to pay. That is, those with a higher capacity to pay are intended to face a higher average tax rate than those with a lower capacity to pay. Such a strategy requires, of course, some measure of capacity to pay. This capacity is predominantly judged to be reflected by the level of the personal income of the taxpayer. But historically some recognition has been given to the demands placed upon this income by the need to support dependents (particularly a non-earning wife and children) and unusual levels of medical expenses. More recently the recognition of differing capacity to pay has been transferred from the tax system to the expenditure system, especially as it pertains to dependent children. The personal income tax is thus mainly individual, but a bit family.

Wages are paid to individuals and to the extent that they are set privately they are independent of the needs of the individual or her/his family. But, as will be
discussed subsequently, the public policy interest in wages has long included a concern that they be sufficient to support not just the wage-earner but also his family.

In contrast with wages and taxes, social welfare benefits have always been assessed on a family needs basis. This is a natural response to the conception of the role of social welfare payments which underpins the Australian welfare state. In the widely accepted classification of welfare states proposed by Esping-Anderson (1990), Australia fits best into the category of ‘liberal welfare regime’, in which the main responsibility for provision of an adequate income is left to the individual and the role of the state is residual—to prevent serious poverty among those who fail to provide for themselves. It is a characteristic of such regimes that benefits are means tested to ensure that they go only to the poor, and that they are just sufficient to prevent serious poverty. In fact the Australian welfare state is more complex in its motivations and outcomes than this characterisation implies. But for my purposes, what is important is that needs are assessed on a family rather than on an individual basis. In so doing it is necessary to prescribe what constitutes a family. The definition of family for welfare purposes is an important issue, for it provides an official expression of opinion as to who the wage-earner is expected to support with her or his income and the converse, which people are entitled to be treated not as dependent family members but as individuals. An example of the significance of this issue is the recent elevation of the age at which parents are no longer deemed to be financially responsible for the support of their children.

It is the purpose of this paper to explore the case for viewing people as individuals, in a public policy context, and the case for viewing them as members of a family. In doing so, I start with some facts about low wage workers, unemployed workers and the welfare system. Section 3 explores wages as a return to the individual and as a support for the household. Section 4
examines the meaning of ‘needs’ and the role of wages in meeting them. I then ask on what basis should we be concerned if wages at the bottom end fall to low levels. A final section briefly draws conclusions.

2. Some important facts

Wages and self-employment are the dominant sources of private income and in what follows I largely ignore income which accrues to the ownership of capital (although this is becoming increasingly important as a source of income for retired people). Indeed, I focus mainly on people and families who are of working age, since it for this group that the contrast between the individual and the family has its greatest policy import.

2.1 Major changes in the labour market

There have been major changes on both the demand and supply sides of the labour market in recent decades and it is worth reminding readers of some of these, because they have important implications for both the financial independence of the individual and the relation between the earnings of the individual and the financial circumstances of the family.

Over the last two decades:

- Men’s employment ratio has fallen from 0.78 to 0.68
- Women’s employment ratio has risen from 0.40 to 0.50.
- The number of employed young men aged 15-19 has halved.
- The proportion of men aged 55-59 who were fully employed fell from 0.78 to 0.58.
- For men aged 60-64, this proportion fell from 0.55 to 0.35.
• Of the 2.4 million extra jobs in 1997 compared with 1978, 1.4 million (58 per cent) were part-time and 1.5 million (63 percent) went to women.
• Almost a million of those extra jobs for women have been part-time.
• Of the extra jobs that men did get, 60 percent were part-time.
• One hundred thousand more men than women joined the ranks of the unemployed, notwithstanding that men's participation in the workforce fell 6 percentage points while women's rose 10 percentage points.
• There has been a large rise in unemployment and under-employment, with an especially damaging growth in long term unemployment.
• There has been a rise in both excessive hours and insufficient hours of work.¹

Real wages today are about 60 percent higher than they were in the mid-1960s. But over 80 percent of this growth occurred in the decade to 1975. Over the past 20 years, average real wages have grown only 10 percent.²

Borland (1997) has shown that the increase in real wages over the last 20 years has been unevenly distributed. Men in the top 20 percent of the pay distribution gained about 12 percent whereas men in the bottom 30 percent actually had lower real wages in 1995 than they had in 1975. Inequality also rose among women's pay, but at all levels their pay rose in real terms and relative to men's. Both men and women, at all levels of the pay distribution, have seen a rise in their real pay since 1990.

Over this period, women have become increasingly like men in their employment. Specifically, relative to men, women have now:

¹ All these data come from the labour force and demographic time series electronically available from the ABS.
² In this period (1975 to 1995) they grew not at all in the US and fell by about 16 percent in New Zealand (Gregory, 1993, 69).
• increased their proportion of total paid hours
• increased their proportion of jobs, including full-time jobs
• increased their pay
• increased their education
• have an increasing share of the good jobs, especially as managers, professionals and para-professionals.  

The major import of these developments for the link between individual and household is that the traditional “male breadwinner provides, through his wages, the income required to support the family” is no longer tenable as a basis for construction of public policy. The males are increasingly unemployed, non-employed and under-employed and for many who have jobs their wages are a decreasing proportion of the median wage. At the same time, wives are increasingly employed, including full-time, and in increasingly well-paid jobs. But young people are not, with many fewer in full-time employment. The establishment of a steady and adequate employment income has become increasingly difficult for young people.

2.2 Who is getting low wages?

The policy concerns about the link between the individual and the family centre around the State’s assumed responsibility to prevent serious poverty. People and families who receive high wages are outside the scope of these concerns. It is useful, then, to see who the low wage earners are, and in particular, what sort of families they live in. If, for example, they are mostly single, then the distinction between family and individual is not relevant.

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6 For a more detailed discussion of the changes in employment in Australia, see Richardson, 1998, from which these statistics are drawn.
The following table is taken from Richardson (forthcoming). It is based on 1989/90 data, but analysis of later years shows that the broad characterisation remains robust. Low wage is taken to be an hourly wage of $8.50 or less for an adult and $5 or less for youth under age 21. About 10 percent of wage earners had these low wages. The table also shows the characteristics of adult workers who earn a slightly higher wage ($8.50 to $9.50 per hour). The main difference between the picture presented in Table 1 and the more recent (1995) picture is that there has been a rise in the fraction of low wage workers who are men. In summary, Table 1 shows that low wage workers were disproportionately female, with an age distribution and marital status similar to that of wage earners in general, but somewhat less education. Married men with dependent children were under-represented among low wage earners while married women with dependent children were over-represented. Eighteen percent were non-student children living at home. In all, 60 percent were married and 40 percent had dependent children. Only 12 percent lived alone or as part of an unrelated group.

It is clear from Table 1 that low wage workers are overwhelmingly members of families. Many have dependents who they help to support with their wage income. Most live in families with more than one source of income. We would expect from this information that the material standard of living of low wage workers (as measured by the disposable equivalent income of their families) would be only weakly linked to their own earnings.

2.2 Low wages and low family income

The question of whether receipt of low wages is strongly linked in Australia with living in a low income family has been extensively explored in a recent set of papers. The conclusion from this work is that low wage workers are spread

7 Richardson, forthcoming; Harding and Richardson, 1998, Richardson and Harding 1998a and 1998b
across the whole distribution of family (equivalent disposable) income, with
some mild concentration in the bottom third of that distribution and under-
representation at the top. The lower the wage, the more are low wage workers
found in the bottom end of the family distribution. Figure 1 below reproduces
an illustration of these findings.

To construct Figure 1, all persons had the equivalent disposable income of their
family computed and allocated to them. People were then ranked from lowest to
highest in terms of this family income. By construction, 10 percent of people
are to be found in each decile of this distribution. Figure 1 shows what percent
of unemployed, low wage, minimum wage and all wage and salary earners are
found in each decile of the family income distribution. If, for example, people
who live in low wage families look just like the rest of the population, then 10
percent of them would be found in each decile of the family income
distribution. The first two deciles of the family income distribution have a large
proportion of people who are either unemployed or not in the labour force.
Even so, 12 percent of minimum wage earners are found in the lowest decile.
Unemployed people are overwhelmingly found in the bottom of the family
income distribution. Minimum wage earners (those earning the equivalent of
the Federal Minimum Wage of 1997, or less) are disproportionately to be found
in the first and middle income deciles. Low wage earners are more concentrated
in the middle deciles.

The perspective represented in Figure 1 is consciously that of the family
(literally, the ABS income unit). There is no doubt that as individuals, low wage
earners are at the bottom of the distribution of earned income. They appear in
<table>
<thead>
<tr>
<th></th>
<th>All wage earners</th>
<th>Wage less than $8.50/5</th>
<th>Adults with wage between $8.50-9.50</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sex</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Female</td>
<td>43</td>
<td>66</td>
<td>60</td>
</tr>
<tr>
<td>Male</td>
<td>57</td>
<td>34</td>
<td>40</td>
</tr>
<tr>
<td><strong>Age</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>15-20</td>
<td>8</td>
<td>7</td>
<td>na</td>
</tr>
<tr>
<td>21-24</td>
<td>12</td>
<td>18</td>
<td>21</td>
</tr>
<tr>
<td>25-34</td>
<td>29</td>
<td>21</td>
<td>28</td>
</tr>
<tr>
<td>35-54</td>
<td>43</td>
<td>43</td>
<td>41</td>
</tr>
<tr>
<td>55-64</td>
<td>7</td>
<td>8</td>
<td>9</td>
</tr>
<tr>
<td><strong>LF status</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>full-time</td>
<td>79</td>
<td>57</td>
<td>74</td>
</tr>
<tr>
<td>part-time</td>
<td>21</td>
<td>43</td>
<td>26</td>
</tr>
<tr>
<td><strong>Marital status</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>married</td>
<td>66</td>
<td>61</td>
<td>66</td>
</tr>
<tr>
<td>divorced</td>
<td>7</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>never married</td>
<td>27</td>
<td>31</td>
<td>27</td>
</tr>
<tr>
<td><strong>Highest Educ</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>less than yr 12</td>
<td>33</td>
<td>49</td>
<td>51</td>
</tr>
<tr>
<td>year 12</td>
<td>15</td>
<td>17</td>
<td>16</td>
</tr>
<tr>
<td>trade certificate</td>
<td>15</td>
<td>8</td>
<td>10</td>
</tr>
<tr>
<td>other certificate</td>
<td>23</td>
<td>21</td>
<td>19</td>
</tr>
<tr>
<td>degree or higher</td>
<td>13</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td><strong>Family type</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>husband+depkids</td>
<td>24</td>
<td>8</td>
<td>14</td>
</tr>
<tr>
<td>wife+depkids</td>
<td>16</td>
<td>27</td>
<td>23</td>
</tr>
<tr>
<td>husband no depkids</td>
<td>14</td>
<td>8</td>
<td>12</td>
</tr>
<tr>
<td>wife no depkids</td>
<td>12</td>
<td>17</td>
<td>17</td>
</tr>
<tr>
<td>lone parent</td>
<td>2</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>student child at home</td>
<td>1</td>
<td>2</td>
<td>na</td>
</tr>
<tr>
<td>other child at home</td>
<td>13</td>
<td>18</td>
<td>14</td>
</tr>
<tr>
<td>unrelated group</td>
<td>8</td>
<td>6</td>
<td>8</td>
</tr>
<tr>
<td>live alone</td>
<td>7</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td><strong>Total number</strong></td>
<td>5,769,421</td>
<td>545,914</td>
<td>463,568</td>
</tr>
</tbody>
</table>

Source: data are from the ABS Survey of Income and Housing Costs, 1989/90, unit record files. The figure is reproduced from Richardson, forthcoming.
Figure 1

Distribution of Unemployed People, Low and Minimum and All Wage Earners, by Decile of Equivalent Current Disposable Income, 1994/95

Source: data are from the ABS Survey of Income and Housing Costs, 1994/5, unit record files. The figure is reproduced from Harding and Richardson, 1998.
the middle of the distribution of family income for three main reasons. One is that wage earners, even low wage earners, generally have higher incomes than do those not in receipt of a wage. The second is that an equivalence scale has been applied in the construction of family income. This explicitly, if arbitrarily, takes account of the needs of the family in which the individual lives. And it makes a difference. For example, a person who is paid $8.50 per hour and has a full-time job is located in the 6th decile of the distribution of equivalent family income if he or she is single. This same income would place a family of 4 in the second decile. The equivalence scale has powerful effects and behind it, of course, is the presumption that the income of the family is shared according need, regardless of who earns it.

2.3 Sources of income

As we have seen, wages are individualistic and welfare is family based. It is interesting to see how much these two sources of income intersect. As an illustration, Table 2 (which is taken from Richardson and Harding, 1998b) reports the sources of family income for several different groups. These are all low wage workers, low wage adults, and all wage earners. The top panel reports sources of family income in the week of the interview. The second panel reports sources of family income over the preceding year. This enables us to see the volatility in sources of income as people’s employment status and eligibility for social welfare varies in the course of a year.
Table 2: Principal Income Source and Other Characteristics of Low Wage Earners and All Wage and Salary Earners, 1994/95

<table>
<thead>
<tr>
<th>Principal source current family income</th>
<th>All low wage workers</th>
<th>Low wage adults</th>
<th>All</th>
<th>Female</th>
<th>Male</th>
<th>All</th>
<th>Female</th>
<th>Male</th>
<th>All</th>
<th>Female</th>
</tr>
</thead>
<tbody>
<tr>
<td>no income</td>
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<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>wage &amp; salary</td>
<td>85</td>
<td>90</td>
<td>87</td>
<td>84</td>
<td>90</td>
<td>87</td>
<td>84</td>
<td>90</td>
<td>87</td>
<td>84</td>
</tr>
<tr>
<td>own business</td>
<td>7</td>
<td>4</td>
<td>6</td>
<td>7</td>
<td>3</td>
<td>5</td>
<td>7</td>
<td>4</td>
<td>5</td>
<td>7</td>
</tr>
<tr>
<td>govt cash benefits</td>
<td>7</td>
<td>4</td>
<td>5</td>
<td>7</td>
<td>4</td>
<td>6</td>
<td>7</td>
<td>4</td>
<td>6</td>
<td>7</td>
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<tr>
<td>other</td>
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<td>3</td>
<td>2</td>
<td>1</td>
<td>3</td>
<td>2</td>
<td>1</td>
<td>3</td>
<td>2</td>
<td>1</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Principal source period (annual) family income</th>
<th>All low wage workers</th>
<th>Low wage adults</th>
<th>All</th>
<th>Female</th>
<th>Male</th>
<th>All</th>
<th>Female</th>
<th>Male</th>
<th>All</th>
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<td>0</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>1</td>
<td>1</td>
<td>0</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>wage &amp; salary</td>
<td>83</td>
<td>82</td>
<td>83</td>
<td>83</td>
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<td>83</td>
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<tr>
<td>own business</td>
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<td>6</td>
<td>6</td>
<td>5</td>
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<td>5</td>
</tr>
<tr>
<td>govt cash benefits</td>
<td>8</td>
<td>10</td>
<td>9</td>
<td>8</td>
<td>9</td>
<td>9</td>
<td>8</td>
<td>9</td>
<td>9</td>
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</tr>
<tr>
<td>other</td>
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<td>2</td>
<td>2</td>
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<td>2</td>
<td>2</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>1</td>
</tr>
</tbody>
</table>

| Proportion of persons receiving GCB - %       | 24                   | 16             | 20  | 27     | 16   | 22  | 27     | 16   | 22  | 27     |
| Average personal income from govt cash benefits | $18              | $15            | $17 | $20   | $16  | $18 | $20   | $16  | $18 | $20   |
| Average gross personal income                 | $268                | $315           | $291| $285  | $354 | $318| $285  | $354 | $318| $285  |
| Average family income from govt cash benefits (GCB) | $32               | $33            | $32 | $32   | $31  | $32 | $32   | $31  | $32 | $32   |
| Average gross family income                   | $713                | $527           | $621| $715  | $517 | $621| $715  | $517 | $621| $715  |
| Average equivalent disposable current family income | $516             | $448           | $482| $525  | $462 | $495| $525  | $462 | $495| $525  |
| Av GCB received by those families who do get GCB | $82                | $101           | $91 | $82   | $101 | $90 | $82   | $101 | $90 | $82   |

Note: Denotes less than 20,000 weighted observations, or a sampling error greater than approximately 25 per cent.

Source: data are from the ABS Survey of Income and Housing Costs, 1994/5, unit record files. The table is reproduced from Richardson and Harding, 1998b.

Table 2 suggests that most low wage workers were not in such a vulnerable position that social security benefits received by their family were a more important source of current income than their wages. Nonetheless, one in every 20 low wage workers lived in a family where the principal current income source was government cash benefits. This proportion almost doubled to nine per cent when the principal source of family income in the preceding year was considered. This suggests that there is substantial movement between reliance on the welfare system and low paid work.
Other important points to note from Table 2 are:

- between 20 and 30 percent of wage earners receive some government cash welfare payment, and this figure is lower for low wage workers
- on average, the contribution of such cash benefits to both personal and family income is very low, even for low wage workers (between 2-5 percent)
- for those families which receive government benefits, the level of payment is on average much higher, at around $90 for low wage workers.

3. Wages and the individual

The wage is the reward for a person's contribution to the business of the enterprise which employs her or him. It is, of its essence, based on the individual and not the family. The wage is the quid pro quo for effort and skill applied on the employer's behalf. As such, it is a measure of the worth of that effort and skill to the employer, and indirectly, to the society—in a materialist world. This sense that wage equates with worth is an important reason why workers care so much about their relative, as distinct from absolute, wage. And it is why there is a community interest in the structure of wages. Very high wages puff up the recipient and exaggerate his or her sense of social worth. Very low wages, conversely, degrade the recipient and imply that he or she is of little value. Such inequality of esteem is difficult to reconcile with the putative equality of the same people as citizens and participants in the democratic political process.

Wages also provide purchasing power to the individual and this in turn has several important consequences. That purchasing power enables the individual to be financially independent—indepedent both of other family members and
of government. It provides the crucial incentive to work. And it provides standing for the worker as a productive and contributing citizen. It is also, of course, a substantial determinant of the wage-earner’s material standard of living.

All of these aspects of the wage pertain to the individual. It is the individual who offers her or his time and skill, which is all that is of interest to the employer. It is the individual who acquires the material and social benefits of that productive work. When the wage is set unilaterally by the employer, or by negotiation with the worker, then it is only these individually-based considerations that are relevant.

But for most of Australia’s history post federation, wages have not been seen as a matter solely of concern to the individual worker and the employer. The collective interest in the wage outcome, which was first embodied in the Harvester judgement in 1907, had from the very beginning a concern about needs, and assessed these needs in terms not of the individual but of the family. The basic wage set by Higgins in 1907 was intended by him to be sufficient to meet the needs of a family of “about five”. In his enquiries as to what wage was necessary to meet normal, frugal, needs, Higgins did not ask how much a single man or woman needed, but how much was needed by a man who had a dependent family comprising a wife and several children. The sum he fixed upon—7 shillings per day—would have provided a handsome standard of living for a single man, yet employers were equally obliged to pay the standard to a single man as to a man who supported a family. In a later judgement, Higgins set a minimum wage for women, in specific fields of employment, which was 54 percent of the male rate. The reasoning behind this was entirely consistent with that of the Harvester judgement. Women generally did not have to support families, and so they needed less income than did men. This was, of course, rough justice. Higgins was conscious that, whatever his view of what a
married man needed, he could not fix a wage which employers could not afford to pay. And no central authority could force employers to hire workers at a wage which exceeded the employer’s estimation of their worth. Further, although many men had families, many others did not; and while many women did not have families to support, some did. So from the beginning, wages were set to reflect a mixture of needs and desert. Put another way, wages as set by the tribunals were a rough mixture of the worth of the individual and the estimated needs of the average family.

The minimum real wage set by the Harvester judgement did not last long for unskilled men. It was quite quickly eroded by inflation. This was added to the concern that Higgins did not have sufficient information from which to evaluate the real needs of a typical family—indeed, even to know what constituted a typical family. Thus began a long debate which has waxed and waned in Australia’s wage fixing history about a) the role of the needs of the worker, as compared with the capacity of the employer to pay, in setting minimum wage rates, b) how to measure these needs, and c) whether wages as distinct from some other instrument—notably child endowment—should be used to take account of the varying needs of workers.8 From Higgins to the Royal Commission chaired by AB Piddington in 1920 to the Living Wage Cases argued in the Australian Industrial Relations Commission in 1997 and 1998, the wage tribunals have been exhorted to identify what constitutes minimum needs and to ensure that no worker is paid less than this. Time and again the tribunals have baulked at this request. The wage they set is for the individual. A uniform wage does not deliver a uniform standard of living, because needs vary. Yet no one proposed that people with more dependents should be paid a higher wage on that account (apart from the lower wage paid to women on the presumption that they did not have dependents). The legislated task of the tribunals was to

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8 Keith Hancock, in his Cunningham Lecture of 1997. (Hancock, 1998) examines the role of needs in wage fixing in Australia. He concludes that it is not a helpful concept.
resolve industrial disputes and to some degree to offset the imbalance in bargaining power between employer and worker. Only in the latter guise was it an instrument for social welfare.  

4. Needs

It has long been accepted that the needs of a large family are greater than the needs of a small family or of a single person. Needs, in this context, means the level of income which is required to enable families of different size (and composition) to attain approximately equivalent levels of material standard of living. The idea is formalised in contemporary scholarship in the use of equivalence scales. As anyone who has used these will know, these scales are more precise in appearance than in reality. They are intended to capture the economies of scale associated with shared living arrangements. But they do so in an essentially arbitrary way which imposes uniformity on what in reality is great diversity. Despite their shortcomings and essentially arbitrary nature, it is scarcely debatable that it is appropriate to make some equivalence scale type adjustments to income when dealing with families of different size, in order to express their material living standards in a more commensurable way.

It is presumed in such adjustments that the objective is to make equivalent the capacity to attain a given material standard of living. It does not follow either that the actual standard attained is equivalent or that the level of welfare more broadly conceived is equivalent. The emphasis on material standard of living rather than welfare is significant, as it implies that additional family members bring material needs but add nothing of relevance to the well-being of the family. It is a very materialist view of the world that perceives a new baby as nothing but a burden which has the effect of lowering the standard of living of

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9 The 1996 amendment to the Workplace Relations Act included a requirement, for the first time, that the AIRC have regard to "the needs of the low paid" when setting a safety net of fair minimum
the family. One wonders why people ever have children. Adults who choose to have children or couples who choose to have one of them remain out of the workforce are presumably doing so because they believe that what they gain thereby exceeds the loss from their reduced capacity to buy things for themselves. On what grounds, then, do we decide that an employed couple who earn $2,000 per week have their standard of living fall when they choose to have a child? The application of an equivalence scale would say that they have a lower equivalent income than before, but in reality they are choosing to spend less on dinners out and overseas holidays and more on family life. Revealed preference says they are better off, in terms of overall well-being, as a result of this choice while the equivalent income measure says they are worse off. In this case, I think that the revealed preference interpretation is closer to the truth.

This is not just entertaining speculation, because it raises the important social policy issue of who should be responsible for the support of children. Traditionally, the family which conceived them was responsible for the subsequent care and support of their children. If men could not afford to support children they should postpone marriage until they could. If a family could not afford additional children, various strategies were available to avoid conception or to give away or dispose of an unwanted child. Family formation—the decision, the costs and the benefits, was a private matter. The system of sole private responsibility had many harsh consequences, including the abandonment and destitution of children and mothers and the forced labour of children born to very poor families. It has been a large and humane development to see the collective concern for children extend first to the provision of free schooling and then to direct financial support. No doubt this change has been based in part on the view that the child had no part in the private decisions which affect her or him, and may not welcome a sibling, even if welcoming her own arrival in the world. To say this, of course, does not

wages (section 88B(2)(c)).
provide any principles that would help guide decisions about whether and how the boundary between private and collective financial responsibility for children should be shifted. But it does suggest that the essential idea behind the use of an equivalence scale, while disputable when applied to people across the entire income distribution, is relevant in the Australian social welfare context with its emphasis on prevention of serious poverty. Not all births are carefully planned to maximize welfare and at some low levels of income the extra financial demands of a larger family can push them below an acceptable material standard of living. Thus, while I am sceptical about the adjustment for family size across the entire distribution of income, it seems justified at low levels of income.

One related contemporary issue is whether minimum adult wages should be set at a level which is sufficient to enable a full-time wage earner to support a number of dependents. Do employers have a responsibility to pay enough to enable their workers have an ordinary family life? As discussed above, this is an old question in Australia which has been dealt with in a pragmatic way by the industrial tribunals. Over time, they have moved away from the concept of the needs of the ordinary worker as the basis for determining the level of low wages. This was made explicit in the equal pay decisions of 1969 and 1972, when the inconsistency of an equal pay argument based on deserts with pay-setting based on needs was clearly articulated. The tribunals largely replaced needs with an approach which in effect gave to low paid workers the largest wage rise which they deemed practical. In judging what was practical, they variously took account of movements in the dispersion of pay, in productivity growth, and expected effects on inflation, on unemployment and on the balance of payments. In the 1997 Safety Net Review, the AIRC explicitly rejected an approach to setting the minimum wage which was based on “An attempt ----to quantify needs and the costs of meeting them---to ensure that wages are sufficient to provide for them”. (AIRC, 1997:65). They opted instead for the
view that needs rise as pay falls, but there is no threshold level of pay below which needs are not met and above which they are—even ignoring the difficulty arising from the variety of workers' family circumstances. In this I think the Commission has made a wise decision.

At low levels of income, the extent of needs increases as income falls in a way which does not lend itself to the identification of thresholds. Nonetheless, the actual experience of living on some specified low income, such as the minimum wage or social welfare benefits, is relevant to an assessment of their proper level. If a person on the minimum wage cannot afford, even with careful husbanding of resources, many of the things which other wage earners take for granted as necessary, such as a telephone and some social activities, then the case for a wage rise is stronger than otherwise. It may be judged, for example, that a wage rise at the bottom would result in some inflation, but that this overall cost to the community is the more worth bearing the greater is the relative hardship of the low wage earner.

It is here that evidence on the actual living circumstances of low wage earners (or social welfare recipients) becomes relevant. As shown earlier, when viewed from the perspective of the equivalent disposable income of the families in which they reside, low wage earners are not especially badly off. There are some at the bottom of the income distribution, but the clear majority are not. Why is this? The main reasons are:

- the application of an equivalence scale means that a single full-time worker earning a low wage is in the middle of the family equivalent income distribution
- the majority of low wage workers live in families where there is another income recipient (spouse or parent)
  - among couples with a low wage earner, the low wage contributes on average about 40 percent of the family income
the proportion falls as family income rises, from 53 percent for families in the bottom decile to 25 percent for families in the top decile)
• among low wage families with children, the low wage earner contributes on average about 30 percent of family income, with the percentage again falling as family income rises\textsuperscript{10}
• people and families who receive a wage, even a low wage, generally have higher incomes than those who do not (many of whom rely on social welfare payments).

5. Do low wages matter?

One inference that may be drawn from the evidence that most low wage workers do not live in families which are at the bottom of the income distribution is that low wages do not matter as a social policy or equity issue. A more gentle inference is that any substantial financial hardship which arises from low wages is caused by the presence of dependents (especially children) and is best dealt with via the social welfare system. Are these inferences warranted, or are there still reasons to worry about low wages? I consider the answer to this question under two heads. One is the relation between the individual and the family. The other is the relation between wages and welfare.

5.1 The individual and the family

“A woman is only a husband away from poverty” may seem a trite expression at first (akin to saying that Bill Gates is only $50 billion away from poverty). But there is a reality which underlies this expression, and a man is not only a wife away from poverty. It is well established that sole mothers (in contrast
with sole fathers) have higher poverty rates than almost any other group in Australia. Most of these women have been married and are now single as a result of separation or divorce. In an interesting account, based on longitudinal data, of the mobility of families across the income distribution over time, Gittleman and Joyce (1998) conclude that for (US) women divorce is quite strongly associated with moving down the income distribution while for men it is associated with moving up. They also conclude that "---women with higher levels of labor force activity while married tended to be somewhat less likely to experience downward mobility in the event of divorce." (p. 23) In the absence of comparable longitudinal data for Australia, we can only conclude that a similar story could be told here. It provides grounds for worrying about the level of wages earned by married women.

Many low wage earners are married women whose earnings contribute less than half of the family income. While they stay married, their low wages do not lead directly to a low standard of living. But should they become one of the approximately half of married women whose marriages will end in divorce, then they are immediately at risk of falling to the low end of the income distribution. This raises the larger point. Family structure is dynamic. Marriages are formed and fail. Children grow up and, if they can afford it, leave home. It is an essential part of the transition to adulthood that young people can leave the family of origin and form their own independent living units. This is one reason why it is not sufficient always to assess the living standards of individuals in terms of the equivalent income of the family in which they are currently living. Even if parents were willing to go on supporting their offspring as the latter grow into middle age, it is objectionable to say that the personal income of the younger generation is irrelevant to their well-being, because their parents will pay for them. They need to be able to leave home.

\footnote{For details, see Richardson and Harding, 1998b, p. 15.}
A second reason why personal circumstances, and not just those of the family, matters is that it affects the balance of power within the family. The use of equivalence scales, or their counterpart in the social welfare system, hides the fact that who gets the money can matter in terms of who has the dignity of independence and who has the ‘unfreedom’ of dependence.

The level of a person’s well-being is affected, inter alia, by her or his material standard of living, degree of personal autonomy and level of respect, in the society and within the family. The current level of each of these matters, and so too does the degree of security with which each is held.

Wages contribute to each, in different ways. People can have a very high standard of living while having no wages of their own. They may live in a household where others receive a high wage, and share in the goods and services which that income buys. Their high standard of living would generally not be matched with high levels of autonomy or social standing. Their autonomy and standing would be derived from the gift of another—the income earners in the households. It would be contingent, subject to withdrawal if they should offend, or for any other reason that their financiers should conclude is a sufficient basis upon which to withdraw that support. Social mores can be a powerful constraint on the withdrawal of support by the breadwinner, but where they are they can be expected to constrain the dependent family member even more. Love and compassion can also constrain the breadwinner, but these too may change unilaterally. The only ways for a person to secure her or his standard of living, and autonomy, are either to be indispensable to the breadwinner or to receive her or his own income. If we are interested in whether or not a person has satisfactory housing or access to a television, then information about the income (or material circumstances) of their family is sufficient. But there are other important dimensions to well-being, including autonomy, independence and security, which can only be assessed via
information on the individual. If only an individual or only a household perspective is adopted, then important dimensions of well-being will be missed. Both are needed.

5.2 Wages or welfare?

Should we be indifferent as to whether a person's purchasing power comes from wages earned or from welfare received? It is implicit in current proposals for a cut in wages partially compensated for by tax credits or additional child payments that the answer to this question is no. I wish to put the argument for the opposite view.

There are strong reasons for thinking that the source of income does matter. Income which is a reward for work done brings not only purchasing power but an independent measure of the worth of that work. Income which is received as a 'gift' from charity or government has no such affirmation. Indeed, it conveys the opposite message, that you are not capable of doing anything sufficiently worthwhile that others will pay you for it. The centuries old discussions of the shame and personal diminishment associated with receipt of charity or welfare attest to that. A low wage implies that a person's efforts are of little value. It is an offence to the dignity of workers to pay them degradingly low wages. What constitutes a degradingly low wage will, of course, be affected by the standards of the time. It is a relative as much as an absolute idea.

Second, a person's reliance on the tax/welfare system for an adequate income means a reliance on the willingness, both in political and compliance terms, of the taxpayer to be taxed. Such transfers are contentious and contested and attract less legitimacy than do wages earned. These payments are also at risk because they are based on 'needs' rather than on 'deserts'. It has not been possible to produce a measure of 'needs' which commands wide assent and is
enduring over time. The very notion of what constitutes need is constantly open to reassessment. Further, any measure of need will always embrace people who are more needy than are the best-off people so classified. It will thus always improve the distribution of income to take from the better-off ‘needy’ recipients of welfare and give to the worst-off. The only end to this logic is when those defined as being in need are homogeneously the very poorest. The focus of the Australian welfare system on the alleviation of poverty makes it the less appropriate for a role in maintaining the standard of living of wage earners. Welfare payments from government are associated with “dependence” and “need” and “poverty”. The system requires the State to intrude sufficiently into people’s lives to be able to judge their degree of “need”. This intrusion is degrading, especially if family status as well as income must be demonstrated.

Finally, should the incomes of the affected workers be largely maintained by the welfare system, there would in effect be a transfer of the responsibility for providing an adequate rate of pay from the employers and their customers to the taxpayer. A reliance on the tax/welfare system imposes deadweight losses from collection of the tax and from disincentives to work and these have been estimated to be large.

If it could be demonstrated that a reduction in the value of low wages was likely to generate a substantial rise in employment for low-skilled people, then the costs outlined above might be worth bearing. I am sceptical that this is the case. If we do move down the path of low wages supplemented by transfers from government then it would be appropriate to consider a shift in the foundations of the Australian social welfare system, to diminish the emphasis on poverty relief and a safety net and expand the emphasis on social insurance and on generating greater equality in the distribution of income.
Conclusions

The powerful role of the family as a micro-welfare system means that inequality of family income is less than inequality of personal income. This important fact means that for many purposes the family is indeed the appropriate unit of analysis, even if it requires difficult decisions about what constitutes a family. The use of equivalent income in analysis of the distribution of income, and the adjustment of social welfare benefits for difference in the size and composition of the family are based on the twin assumptions that families do share and that there are economies of scale in living arrangements. These assumptions have much to commend them, and assessments of the standard of living and inequality must include a family perspective. But such an assessment should not rely only on a family perspective. The individual matters too. In the labour market, it is mainly the individual's talents and effort which are rewarded. The family unit in which the individual is located at any time is not a stable thing. Death, divorce and the arrival and departure of children change the family unit, and the individual needs the confidence that he or she can prosper even when these events occur. This confidence is greatly enhanced by an ability to earn a decent wage, which then provides a capacity for independent living which does not depend upon the grace and favour of either a family member or the taxpayer.

It would be a sad outcome if an overemphasis on the perspective of the family meant that we accepted—indeed advocated—a situation in which a fully employed adult could be paid a wage that was not enough to provide a decent standard of living. That would indeed change the implicit contract which has prevailed in Australia during the course of this century, in which wages provided for financial independence for workers and welfare was for those who could not work.
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