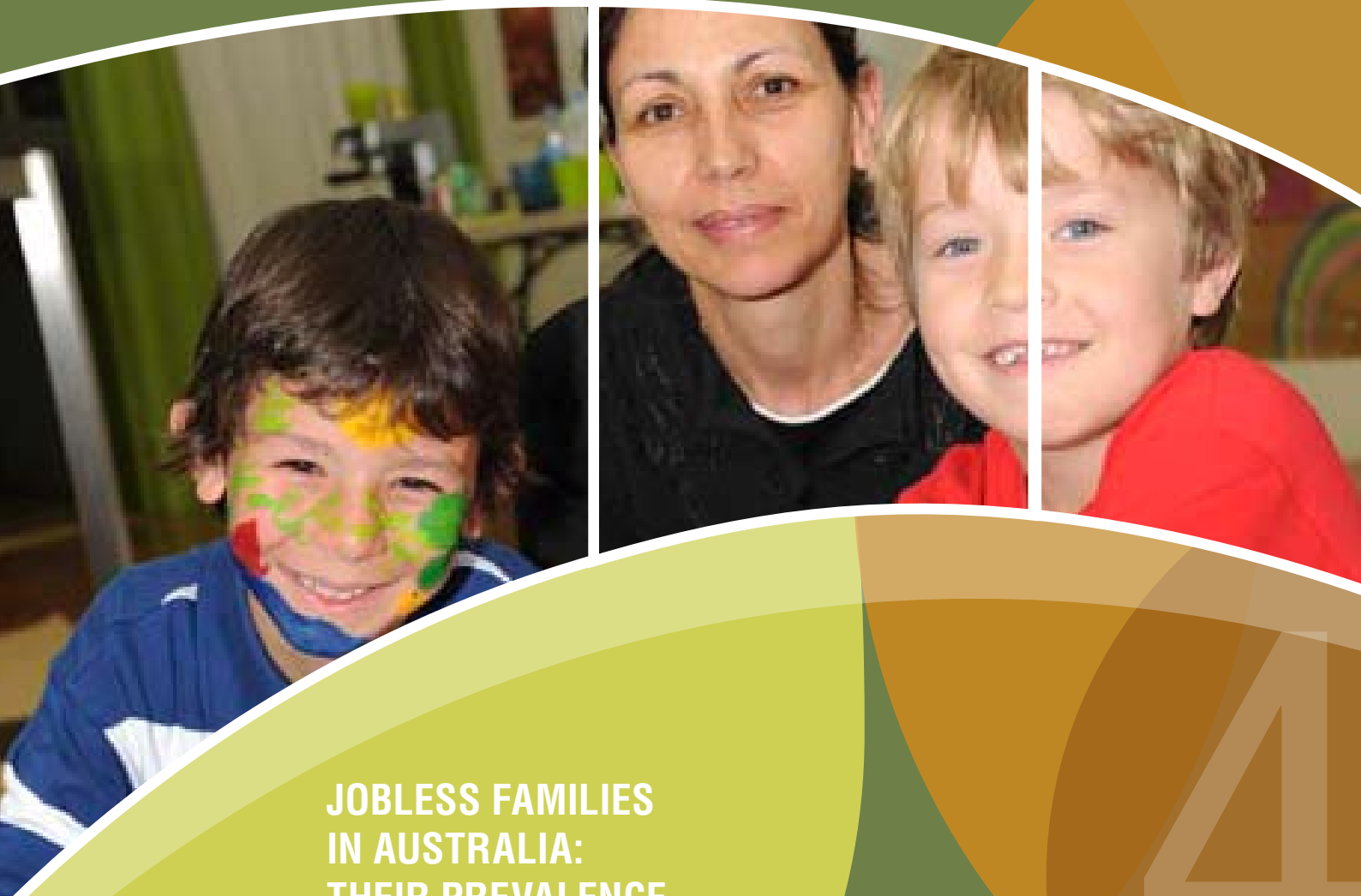




Australian Government

Department of Education, Employment
and Workplace Relations

Social Inclusion



**JOBLESS FAMILIES
IN AUSTRALIA:
THEIR PREVALENCE,
PERSONAL AND SOCIETAL
COSTS, AND POSSIBLE
POLICY RESPONSES**

4

January 2009

This is the fourth of a series of commissioned papers on social inclusion/exclusion, prepared for the Australian Department of Education, Employment and Workplace Relations by Professor Tony Vinson, Faculty of Education and Social Work, University of Sydney. August, 2008

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JOBLESS FAMILIES

Introduction

Both Australian and overseas studies over the past decade have shown that the burden of joblessness has increasingly become concentrated in certain households with diminished prospects of those not in work being able to be supported materially by other family members. At the same time there has been an increase in all-work households. “Thus employment is becoming increasingly polarised into all-work households and no-work households,” (Dawkins, Gregg and Scutella, 2002).¹

According to OECD calculations Australia has a lower proportion of households that are jobless than is common among most industrially developed nations but the picture changes when the focus is upon children growing up in households with no adults working (OECD, 1998).² Viewed from that angle, Australia in common with other English speaking countries (other than the US) has an unusually high incidence of children growing up in those circumstances. Estimates converge on a figure of around 700,000. However, analyses by the Melbourne Institute of Applied Economic and Social Research remind us that joblessness need not be a permanent status. The Institute uses a somewhat less stringent definition of a ‘jobless household’ as being one in which no household member worked for more than 25% of the available weeks during the preceding financial year. The analysis was confined to households with ‘prime age’ reference persons (25-54) who were not full time students. On that basis and utilising panel data for three consecutive years (HILDA Survey, Annual Report, 2004),³ Heady and Verick (2006) report that while 15.3% were in jobless households for one or more years, 4.7% were in the same situation for three years. An additional 4.9% were jobless for two years and 5.7% for one of the three years.⁴

There are marked differences in the rate of joblessness across different types of households. Couples who stay together are at low risk (annual rates around 4% and a three-year rate of 1.6%). Three other types of prime working age household—those headed by single mothers, single fathers and disabled persons—had three-year jobless rates over 25%. So far as children are concerned, the longitudinal data afforded by HILDA shows a considerable degree of persistence: 8.7% were in jobless households for all three years and an additional 7.9% for two years, with a high concentration in single parent households—a finding replicated in many studies (see below).

1 Dawkins, P., Gregg, P., Scutella, R., (2002) “Employment Polarisation in Australia,” Melbourne, Institute of Applied Economics and Social Research, Working Paper No. 9/02, June

2 OECD (1998), OECD Employment Outlook, Paris, OECD

3 Melbourne Institute of Applied Economic and Social Research, *HILDA Survey, Annual Report, 2004*, Melbourne, University of Melbourne, p.23

4 Headey, B., Verick, S., (2006) *Jobless Households: Longitudinal Analysis of the Persistence and Determinants of Joblessness Using HILDA Data for 2001-03*, Melbourne, Institute of Applied Economic and Social Research, Report No. 7, November

Consequences of joblessness

Living in a jobless household can have many adverse consequences for children and young people. Unemployment has been linked to truancy and non-completion of schooling, family break up, spouse abuse, substance abuse, illness and premature death (Siegel, 1994: 8).⁵ Gregory (1999)⁶ draws attention to the fact that a child's future development may depend importantly on access to economic resources during the first fifteen years of life. Future income, social position and relative economic success can suffer. Moreover, joblessness can generate tension and conflict in families, with resultant poor health, family violence and social exclusion, resulting from the loss of social and professional contacts in the workplace (Sen, 1997; Darity, 1999).⁸ The stress generated by joblessness is associated with medical problems that are linked to lifestyles involving poor diet and/or excessive consumption of alcohol (Junankur and Kapuscinski, 1992).⁹ However, a 2008 study by Scutella and Wooden, while confirming that mental health is adversely affected by individual joblessness has found no compounding effect from the concentration of joblessness within households.¹⁰ The Australian Government auspiced Reference Group on Welfare Reform (2002)¹¹ saw not only short-term social benefits from reducing jobless families but also expected to see a reduction in the transmission of inter-generational social disadvantage.

Patterns of joblessness

Gregory's analysis of the distribution of jobs across families in the last two decades of the 20th century showed that the substantially greater number of jobs taken up by parents over that period went to families where an adult was already employed. Indeed, the allocation of work across family types polarised as 'two job' and 'no job' families increased together. A statistically more refined analysis by Dawkins et al, (2002) employed a model of how many households would be jobless if jobs were randomly distributed across the working-age population. This study confirmed Gregory's general findings and estimated that the polarisation accounted for 3.3% more jobless households or around 170,000 extra largely poor and welfare dependent families (p. 50).

A key element of Gregory's analysis was the growth in the proportion of Australian families headed by a lone parent and the susceptibility of those families to joblessness. He found that approximately 60 % of families without work were one parent families, and 40% were couple families. The vulnerability of lone parent families to joblessness is not confined to Australia; in the UK two-fifths of lone parent households are workless, around seven times the rate for couple households.¹² This finding in respect of one parent families, reflects the fact that women in the role of sole head of household failed to achieve the same rate of employment as women of prime working age who contribute to the growing number of couples where both adults work (Dawkins, et al, 2002).¹³ However, as the ABS (2004a) points out, in one parent families where the youngest child is under five, 79% of children were living without an employed parent.¹⁴ This compares with 46% of children in one parent families where the youngest child is between five and fourteen.

5 Siegel, R., (1994), *Employment and Human Rights: the International Dimension*, Philadelphia: University of Pennsylvania Press.

6 Gregory, R., (1999) "Children and the Changing Labour Market: Joblessness in Families with Dependent Children," Canberra, ANU Centre for Economic Policy Research, Discussion Paper No. 406, August

7 Sen, A., (1997) 'Inequality, Unemployment and Contemporary Europe', *International Labour Review* 136(2), 155-171

8 Darity, W., (1999) "Who Loses from Unemployment", *Journal of Economic Issues*, 33(2) 491-96.

9 Junankar, N. and Kapuscinski, C.A. (1992) *The Costs of Unemployment in Australia*. EPAC, Canberra: AGPS.

10 Scutella, R., Wooden, M., (2008) "The effects of household joblessness on mental health," *Social Science and Medicine*, Vol. 67, 88-100

11 Reference Group on Welfare Reform, (2000) *Participation Support for a more Equitable Society: Final Report of the reference Group on Welfare reform*, Canberra, Department of Family and Community Services

12 Rowntree Foundation, (2007) *Monitoring poverty and social exclusion 2007*, York (report prepared by G. Palmer, T. MacInnes and P. Kenway).

13 Dawkins et al., (2002) op cit.

14 Australian Bureau of Statistics, (2004a) *Australian Labour Market Statistics: Children Living Without an Employed Parent*, Canberra, Cat. No. 6105.0

Another illuminating way of disaggregating the statistics on jobless households is to divide families without work into those where at least one parent is actively seeking employment and families where all parent members are not in the labour force (NILF). Gregory's data indicated that the NILF category was the major source of lack of work in all dependent children families casting doubt on the usefulness of 'unemployment' as an indicator of lack of work among families. The importance of the NILF category to the broader picture of children living in jobless households is summarised in a table presented by ABS (2004a) (below):

Table 1: Children under 15 living without an employed person(s)—2001-01

| | Total children '000 | Children living in households with unemployed parents '000 | Children living without an employed parent '000 |
|-------------------------|------------------------|--|---|
| Living with one parent | 762.5 | 88.3 (11.6%) | 445.8 (58.5%) |
| Living with two parents | 3,133.4 | 17.9 (0.6%) | 232.3* (7.4%) |
| Total ('000) | 3,895.8 | 106.2 | 678.1 |

*Includes approximately 79,000 children living with one parent who is unemployed and one parent who is not in the labour force

Under-utilised workers

Argy (2005)¹⁵ also throws light on the non-utilised portion of the Australian workforce that is not revealed by the unemployment rate. He does that by taking into account 'hidden unemployment' as well as that amount of additional work that part-timers say they would be prepared to work if it were available (ABS, 2004b).¹⁶ By these means Argy calculates what he calls a 'true' rate of hidden unemployment of some 300,000 and an overall labour underutilisation of 900,000. This latter figure is approximately 9% of the workforce compared with the headline unemployment rate at the time of 5.5%. Who comprises this expanded group of underutilised workers? According to Cartwright (2004)¹⁷ the most vulnerable to long-term joblessness or under-employment are people over fifty, sole parents, Indigenous Australians, people with disabilities and migrants with English as a second language. There is also a spatial dimension to the distribution of joblessness: the rates are higher and of longer duration in South Australia and Tasmania, higher in regional and rural towns than in the capital cities and higher in the outer low-income suburbs (NATSEM/AMP, 2004).¹⁸

Renda (2003)¹⁹ has explored the value of expanding the conventional definition of work poor families to include not only jobless families but also those with only one employed parent working short part-time hours (less than 15 hours per week). For example, over the two decades following 1983 the proportion of lone mothers in paid work increased from approximately 12% to 27%.

15 Argy, F., (2005) "An Analysis of Joblessness in Australia," *Economic Papers*, Vol. 24, No.1, March

16 Australian Bureau of Statistics, (2004b) *Underemployed Workers*, Canberra, Cat. No. 6265.0

17 Cartwright, J., (2004) *The Workplace of the Future*, CEDA Briefing Paper, 13 October

18 NATSEM/AMP (2004) *Money, Money, Money—Is this a Rich Man's World? Trends in Spatial Income Inequality 1996-2001*, NATSEM/AMP Income and Wealth Report, September

19 Renda, J., (2003) "Polarisation of Families According to Work Status," *Family Matters*, No. 64, Autumn, 16-21

However, in the last quarter of the period in question, a higher proportion of lone mothers were in part-time employment. In summary, part-time employment rates increased for all of five family categories—lone mothers, couple mothers with a non-employed partner, couple mothers with employed partners, couple fathers with a non-employed partner, and couple fathers with employed partners. However, the rate of change varied with lone mothers having the greatest rise in part-time employment. With respect to couple families, greater increases in part-time employment were experienced by women than men. Consistent with Gregory's findings, couple mothers with employed partners showed stronger growth in part-time employment than those with non-employed partners. That is to say, for the first-mentioned category, the growth in part-time employment contributed more to a situation of work rich families than was the case with families with low levels of employment. The rate of growth in part-time employment was the same for couple fathers with employed and non-employed partners.

Against this background Renda redefines 'work poor families' by taking into account those working short part-time hours (1-15 hours per week). Lone mothers had the largest proportion of people working short hours and taking that information into account has the effect of substantially increasing the pool that Renda has redefined as work poor families (63% in 2002). Similarly, extending the definition of work poor to couple fathers has a corresponding effect. This leads Renda to the conclusion that applying the conventional definition of work poor and focusing on jobless families is likely to understate the rate of increase in work poor families and the number of Australian families that are likely to experience poverty.

Gregory (1999)²⁰ hypothesises that the marked association between joblessness and low education is a possible explanation of work poor families: men with less valued work skills may live with women who possess similar characteristics. Again, given the partners' mutually limited earning capacities, the high marginal effective tax rates for dependent child couples with low labour market incomes may create an effective disincentive for the spouse of a non-employed partner to seek work. Dawkins et al (2002)²¹ add that a sharp rise in inequality of earnings in the 1980s for low-waged men was most pronounced at a point just above the minimum wage. This decline coincided with increases in the replacement rates between incomes available when not working and those for taking a job at the minimum wage.

National Economic Consequences and possible strategies

In addition to the impact of joblessness on the wellbeing of individuals and families, joblessness represents a substantial waste of national economic potential. Persistent unemployment can occasion the loss of work skills, experience and self-confidence. Argy (2005) estimates the level of under-utilisation of labour that he has calculated to exist—900,000 potential workers, equivalent to 9% of the workforce—costs Australia annually between \$20 billion and \$40 billion, depending on the assumptions made about the effectiveness of policy intervention and the average productivity of the jobless (p.79).²² Watts and Mitchell²³ assume the attainable unemployment rate to be 2% (based on historical precedent) and after taking account of all forms of under-employment and the average productivity of relatively unskilled workers, they calculate that the national gain resulting from 'full' employment would be approximately \$37 billion or 6.6% of nominal GDP. A number of other estimates of macroeconomic loss due to output foregone generally converge on estimates in the range \$30-\$40 billion.

20 Gregory, (1999) op cit

21 Dawkins et al., op cit

22 Argy, (2005) op cit

23 Watts, M., Mitchell, W., (2000) "The Costs of Unemployment in Australia" Newcastle, Centre for Full Employment and Equity, University of Newcastle

What possible policy options do analysts believe are available? The design of effective responses obviously turns on the identification of the key drivers of the jobless rate and the following three are nominated by a number of researchers:

- structural imbalances in the labour market;
- high minimum wages relative to the productivity of marginal workers; and,
- financial work disincentives for many inactive welfare recipients.

The identification of these three drivers does not imply criticism of the maintenance of decent standards of welfare. Apart from helping to constrain the negative impacts of unemployment on individual and family wellbeing, adequate welfare benefits are generally considered to have an economic as well as social rationale. However, as Argy (2005) argues (p.91), welfare's net benefits would be greater if combined with measures to encourage labour participation. The same researcher outlines two basic routes to increased labour participation and the grey boxed area that follows is a summary of his analysis.

The first route emphasises some elements of policy that have recently been at the centre of political debate and (new) governmental rejection but which must be acknowledged here in the interest of a balanced presentation of policy views in an international context. It involves further radical labour market deregulation and tougher welfare reform. Its aim is to induce and facilitate the move from welfare to work through a range of measures that include:

- encouragement of individual contracts;
- a reduction in the real value of unemployment allowances;
- making benefits more conditional (in terms of activity obligations, a time limit on benefits, and requiring people to relocate); and,
- stronger penalties for non-compliance.

The second broad approach would generally maintain the present regulatory framework and put more emphasis on 'active' labour market policies. It would target:

- 'inactive' people on the fringes of the work force who lack sufficient financial incentive to work;
- those disadvantaged by location or lack of work skills in relation to available employment; and,
- those with low productivity who cannot compete at current minimum wage rates.

The recommended strategies include measures to 'make work pay' for groups like sole parents and mildly disabled persons, better education and retraining programs, individualised intensive personal support services, overcoming spatial employment inequality by means such as improved transport, and improved relocation incentives. These supply-side measures need to be augmented by 'demand-side' initiatives including wage and on-the-job training subsidies, assistance to suitable long-term unemployed in starting up a new business, and targeted wage-tax trade-offs which compensate low-paid workers for temporary minimum wage freezes.

Another strategy that has been discussed for some time is the creation of 'public good' jobs to provide work for the unemployed. A variant of that proposal has been presented by Mitchell (1998)²⁴ who argues that if the private sector does not provide sufficient job opportunities to achieve full employment, then the government should guarantee a full-time or part-time job

²⁴ Mitchell, W., (1998), "The Buffer Stock Employment Model—Full Employment without a NAIRU", *Journal of Economic Issues*, 32(2), 547-55.

to everyone who desires one at the living wage level. There are many unfulfilled needs that could be met by Job Guarantee workers including environmental restoration, community services to the aged, youth, and the disabled, and other similarly useful activities. Watts and Mitchell (2000)²⁵ believe such a program will generate a high rate of social return on public expenditure and reduce the unemployment rate to 2%. If it is assumed that these jobs are distributed *pro-rata* between the official unemployed and the hidden unemployed and a full-time salary level set at two-thirds of the average private sector rate, then Watts and Mitchell believe a multiplier effect will see an increase in consumption and work opportunities in the private sector. Taking into account consequential savings on unemployment and disability benefits and anticipated savings on law and order, health and safety expenditures, and increased tax revenue, Watts and Mitchell arrive at an estimated government saving of \$11.2 billion, a figure very similar to the estimate of savings on direct outlays of \$12 billion arrived at by Langmore and Quiggin (1994).²⁶

What Watts and Mitchell call “the arithmetic of the job guarantee” is an impressive attempt to quantify pertinent variables. However, Argy believes that a cultural attitudinal change would not now see Australians supporting expenditures on a mix of supply-side and targeted demand-side measures without the requirement of reciprocal obligations from the jobless (for example, by searching very actively for work, retraining, relocating where possible and necessary, and with some penalties for non-compliance). This is a reminder that, in the final analysis, social values play a vital part in policy choices and that the question of the type of society we want to develop (or preserve) claims equal priority with the outcome of the policy sums. This is particularly true when the calculations fail to provide clear evidence of an overwhelmingly superior likely outcome from one or the other approach. The truth is, according to Argy, that there is not a huge difference between the two strategies, radical labour market deregulation and welfare reform, on the one hand, and active labour market policies, on the other, so far as their effects on economic growth and international competitiveness are concerned. Fortunately, governments are not faced by an either/or choice. “What they have to decide is the balance or mix of the two strategies. And the desired mix must depend on the kind of society Australians want to end up with.”²⁷

In the latter regard, a reduction in child poverty has widespread value support and Whiteford and Adema (2007) in an OECD Working Paper,²⁸ conclude from their review that all countries with very low child poverty rates (less than 5%) combine low levels of family joblessness and effective redistribution policies. On the side of redistribution policies, Australia appears to spend below the OECD average but targets the expenditure considerably more, placing it third on the OECD list of percentage-point reduction in child poverty. In the view of Whiteford and Adema this represents a form of policy effectiveness. However, because Australia has a high level of poverty before redistribution the level of child poverty after taxes and transfers remains relatively high.

Moreover, on the comparative evidence, Australia is one of a number of countries where reforms to reduce joblessness among families with children should be a priority. Not that the latter is a cost-free exercise but the authors note that reducing joblessness has the advantage of potentially increasing tax revenues and reducing social assistance expenditures, which can off-set some of the costs of improved support services.

25 Watts, M., Mitchell, W., (2000) op cit.

26 Langmore, J., and Quiggin, J., (1994) “Employment, Unemployment and Inequality” in *Work for All: Full Employment in the Nineties*, Carlton, Victoria: Melbourne University Press, Chapter 3.

27 Argy (2005) op cit., p.95

28 Whiteford, P., Adema, W., (2007) “What Works Best in Reducing Child Poverty: Benefit or Work Strategy?”, Paris, OECD Social, Employment and Migration Working Papers, 51, March

