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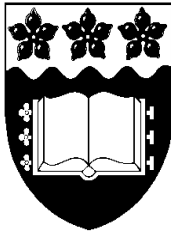
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Travail to No Avail? Working Poverty in Australia since 2000

Abstract

During the last decade or so Australia has experienced high rates of economic growth and low levels of unemployment, conditions that are expected to impact favourably on working people at the lower end of the income distribution. But similar conditions in other countries have been accompanied by unexpectedly high rates of poverty among working people and their dependents. This paper investigates the extent and nature of working poverty in Australia. Its aim is to determine whether or not working poverty is the “new face of poverty in post-industrial Australia”.

I. Introduction

The last two decades have seen substantial changes to Australia's industrial relations system, beginning with the introduction of enterprise bargaining in the early 1990s, which reduced the importance of centralised wage determination. The Workplace Relations Act of 1996 limited the coverage of new awards and, by legalising the use of Australian Workplace Agreements (AWAs), reduced the ability of unions to influence wages and conditions. The take-up rate of AWAs was low initially but increased when the Workplace Relations Amendment Act (Work Choices) of 2005 became operative. Unfair dismissal laws, which had been introduced in 1993 and weakened under the 1996 legislation, were abolished under Work Choices for businesses with fewer than 100 employees. These developments reduced the bargaining power of employees and increased that of employers. There have also been reforms to Australia's welfare system under the Employment and Workplace Relations Legislation Amendment Act (Welfare to Work) of 2005. The welfare reforms, which were intended to encourage single parents, mature-age people on disability pensions and the long-term unemployed to seek employment, are likely to affect the composition of the labour force. These developments have evoked concern that Australia is developing a US-style labour market, with high rates of working poverty. Indeed, working poverty has been called the "new face of poverty in post-industrial Australia" (The Senate Community Affairs Reference Committee, 2004, p. xviii).

The objective of this study is to investigate the extent of working poverty in Australia and to draw a profile of the working poor. Its findings will be of interest to policy makers, employer and employee organisations and welfare groups. Our study is based on data from 2000-01 to 2004-05, whereas information on working poverty

available to the above-mentioned Senate enquiry did not extend beyond 1999. Our time frame is situated well into the Howard government's four terms of office, after the labour-market reforms of the mid 1990s had time to take effect. Our results will also provide a benchmark against which to evaluate the effects on working poverty of the 2005 industrial-relations and welfare reforms, which became operative in 2006.

The paper begins, in Section II, with a discussion of the measurement of working poverty. The methodology and data used in this study are also documented. In Section III we focus upon poverty among working adults. In Section IV we adopt a broader perspective and investigate poverty among all people who live in households containing working adults. In both sections the following questions are addressed. How numerous are the working poor in Australia and have they become more or less numerous in recent years? Is working poverty a persistent problem or a transitory problem for the people concerned? Who are the working poor: what are their demographic characteristics, education levels, living arrangements, *etc.*? Section V concludes.

II. The Meaning and Measurement of Working Poverty

The term 'working poor' is used in the literature to refer to people who undertake some specified amount of labour-force activity but nevertheless live in poverty. This definition, simple as it may seem, has a multitude of meanings depending upon how poverty is measured, how 'working' is defined, and whether interest is centred upon working people who are poor or on all people who live in poor, working households. The term 'working household' may refer to a household with a 'working' head, a household containing at least one 'working' member, or a household whose members in aggregate perform a certain amount of 'work'.

The term ‘working’ may refer to labour-force participation – either in a job or actively seeking a job – or it may be restricted to employment only. Other particulars need to be specified. For how long must the person be ‘working’: at a particular point in time, such as the date when interviewed; for some minimum proportion of a given time period such as a year; or for the entire time period? How intensely must the person work: full time; part time; some average, actual or usual number of hours per week or month? At one extreme a ‘working’ person might be someone who is in the labour force for at least a day during a given year. At the other end of the spectrum is the requirement that the person be in full-time employment for the entire year. The more stringent the definition of ‘working’, the fewer people will be classified as ‘working poor’.

Australia has no official definition of the working poor. Nevertheless, a few studies have sought to measure working poverty, the earliest being that carried out by the Commission of Inquiry into Poverty in the early 1970s. Working poverty was investigated using a strict definition: the number of poor income units with a head in full-time employment for at least 45 weeks per year. An estimated two per cent of such working income units were found to be poor in 1972-73 (Burbidge, 1981, p. 150). In papers produced by the National Centre for Economic Modelling the working poor are defined as people in poor income units that receive at least 50 per cent of their income from wages and salary. Using this definition, Harding and Szukalska, (2000, Table C14) found a working-poverty rate in 1999 of 2.9 per cent. The most extensive study of Australia’s working poor to date is that of Eardley (2000), who used employees – both full-time and part-time – as the empirical equivalent of working people. The working-poverty rate among employees aged 21 years or older was estimated at 1.9 per cent in 1981-82, 2.9 per cent in 1989-90 and 2.8 per cent in

1995-96 (Eardley, 2000, Table A1). Despite differences in the definition and data used to measure working poverty, the picture to emerge from these studies is that the level of working poverty in Australia in the 1980s and 1990s was substantially lower than the overall poverty rate, which was in excess of 13 per cent in 1989-90 (ABS, 1996, Tables S2.2 and S2.6).

The United States Bureau of Labor Statistics (BLS) has collected data on the working poor since 1987 and defines the working poor as “persons who, during the year, spent 27 weeks or more in the labor force (working or looking for work), but whose incomes still fell below the official poverty level” (United States BLS, 2005, p.1). This is a broader definition of working poverty than has been used to date in Australian studies and it may be one reason why the BLS’ estimates of working poverty are higher than Australia’s. During the 1980s and 1990s the working-poverty rate in the United States was approximately 5.5 per cent and since 2001 it has been between 4.9 and 5.6 per cent (United States BLS, 2005, Chart 1 and Table A).

The International Labour Office (ILO) has produced three recent reports documenting the number of working poor in an array of developing countries (Majid, 2001; Berger and Harasty, 2002; Kapsos, 2004). The definition of the working poor preferred by the ILO is the number of individuals who are both employed and poor (Kapsos, 2004, Equation 1, p. 2). However, because many developing countries lack the data necessary to implement the preferred definition, the ILO computes two estimates: a lower limit equal to the number of people who are in the labour force and poor (Kapsos 2004, Equation 2, p.2) and an upper limit equal to the number of people who are of working age and poor (Kapsos 2004, Equation 3, p.3).

Several definitions of working poverty have appeared in the academic literature. Many researchers into working poverty in the United States use the BLS

definition (for example, Klein and Rones, 1989; Gardner and Herz, 1992; Zagorsky, 1999; Mosisa, 2001) but others use the ILO's preferred definition (for example Schwartz and Volgy, 1992; Levitan *et al.*, 1993; Kim, 1998; Gleicher and Stevens, 2005). In a study of working poverty in OECD countries, Stregmann-Kuhn (2004) used four definitions, two of which refer to working people who are poor: (a) people employed for at least one hour in the week before the interview and who live in poor households, and (b) people employed full-time in the week before the interview and who live in poor households. The other two definitions refer to people who live in poor, working households: (c) people living in poor households that contain one or more members who were employed for at least one hour in the week before the interview, and (d) people living in poor households that contain one or more members who were employed full time in the week before the interview. For the European Union as a whole, Stregmann-Kuhn (2004, Figure 1) found approximately nine per cent of working people, and 13 per cent of people in working households, were poor in the mid 1990s.

In this paper we, like Stregmann-Kuhn (2004), determine the number of working people who are poor and the number of people who live in poor, working households. The term 'working' is used to mean spending a minimum proportion of time in the labour force over the duration of a given year. However, we explore the sensitivity of our results to where that minimum is set. Our definition is less stringent than that used in previous Australian studies so we expect to find higher rates of working poverty. The definition encompasses that used by the BLS and thereby allows for a more valid comparison of Australia's rate of working poverty with that of the United States than do previous studies. The term 'working household' is used to

refer to a household containing at least one adult who satisfies the definition of ‘working’.

There are no hard-and-fast rules as to how poverty should be measured so we have chosen the procedure most widely used by Australian researchers. We do not advocate that it is the *best* procedure but since our aim is to inform as many people as possible about the extent and nature of working poverty in Australia it makes sense to use the methodology favoured by the majority. Therefore, we use a relative poverty line equal to half of median household¹ income, adjusted using the modified OECD equivalence scale.² We acknowledge that many previous studies of poverty in Australia identified poverty at the level of the income unit.³ We reject this approach because single people who are not full-time students but nevertheless live with their parents constitute separate, lone-person income units. With only one person contributing wage and salary income, many of these income units will be classified as poor, despite the fact that, as a household, parents and offspring together achieve economies of scale in consumption from sharing accommodation, utilities and other amenities – if not income. Recent studies of income distribution and poverty (for example, Heady, Marks and Wooden, 2005; Saunders and Bradbury, 2006; and the ABS, 2004) have used household, rather than income-unit, income. We do too, on the assumption that one important reason why people live together is to improve their standard of living. We classify each household as poor or non-poor on the basis of its equivalised disposable income and, on the assumption that income is equally shared

¹ The ABS defines a household as “a group of related or unrelated people who usually live in the same dwelling and make common provision for food and other essentials of living; or a lone person who makes provision for his or her own food and other essentials of living without combining with any other person” (ABS, 2006a, Glossary for both definitions).

² The modified OECD scale assigns one point to the first adult in the social unit, 0.5 points to each additional adult and 0.3 points to each child less than 15 years old. According to the ABS (2006a, pp. 52-53) this is the scale most preferred by users of the ABS’ confidentialised unit-record data sets.

³ The Australian Bureau of Statistics (ABS) identifies four types of income units: married (registered or de facto) couples without dependent children, married couples with dependent children, sole parents with dependent children, and lone persons (ABS, 2006a, Glossary).

among household members, we consider every member of a poor household to be poor.

Our empirical results have been generated using unit-record data from the first five waves of the Household, Income and Labour Dynamics in Australia (HILDA) Survey.⁴ The HILDA Survey is well suited to the study of working poverty because it records each individual's household disposable income in a given financial year and the percentages of that same financial year that the individual spent in jobs, unemployed and out of the labour force. The longitudinal design of the HILDA survey allows an assessment of chronic and transitory working poverty because the labour-market activities of individuals, and the income and needs of the households in which they live, are observed over several consecutive time periods.⁵

Disposable income (gross income minus estimated income tax) is used to determine household poverty status. Gross income is comprised of wages and salaries, business income, investment income, private pensions and transfers, and Australian government pensions and benefits. Windfall income is excluded in order to obtain a measure of regular income. Transfers in kind and the costs of working, such as travel to and from the workplace, clothing and child-care costs, are of necessity excluded because of lack of quantitative data.⁶ The survey does, however, collect data on an array of variables that are likely to be correlates of working poverty. When appropriate weighting procedures are applied, the HILDA sample constitutes a

⁴ The HILDA Project was initiated and is funded by the Commonwealth Department of Family and Community Services (FaCS) and is managed by the Melbourne Institute of Applied Economic and Social Research (MIAESR). Findings and views reported in this paper are those of the authors and should not be attributed to either FaCS or the MIAESR.

⁵ For a discussion of the original HILDA sample, the rules by which individuals are followed and the reference population, see Goode and Watson, 2007, p.2 and pp.90-92.

⁶ As recommended by Heady, Warren and Harding (2006, p. 47) all poverty rates in this paper have been calculated after excluding people in households with non-positive disposable incomes on the assumption that their data are not reliable. However, the number of working poor has been calculated as the number of people (including people in households with non-positive disposable incomes) who satisfy the relevant definition of working, multiplied by the working-poverty rate.

representative sample of all Australians living in households in non-remote areas, both in cross section and over time (Goode and Watson, 2007, p. 77-78).

III. Poverty among Poor, Working People

In this section we document working poverty among people of working age: 15 through 64 years. To avoid repetition, the terms ‘person’ and ‘people’ mean ‘person of working age’ and ‘people of working age’ throughout Section III (only).

The Extent of Working Poverty

How numerous are Australia’s working poor and have their numbers changed in recent years? The working-poverty rate is calculated as the number of people who are poor and working expressed as a percentage of the number of working people. We define ‘working’ as spending a minimum percentage of time in the labour force over the course of a given year and present a sensitivity analysis with five levels of ‘work’ considered: greater than 0, and at least 25, 50, 75 and 100 per cent of the financial year (see Table 1). At all five levels of ‘work’ three statistics are presented: the working-poverty rate as defined above (Rows A1-A5), the number of people who are poor and working expressed as a percentage of the total number of people (Rows B1-B5), and the number of people who are poor and working (Rows C1-C5). For comparison purposes Table 1 also displays the following: the number of people who are poor and non-working expressed as a percentage of the total number of non-working people (Row A6); the number of people who are poor and non-working expressed as a percentage of the total number of people (Row B6); and the number of people who are poor and non-working (Row C6). Non-working people are not in the labour force at any time during a given year. Rows B7 and C7 give the percentage and number, respectively, of people (whether working or non-working) who are poor.

The definition of ‘working’ affects the working-poverty rate by at most 1.6 percentage points in any of the five years (2001-02, Rows A1 and A5). When only some participation in the labour force during the year is required, the estimate of working poverty in 2004-05, the most recent year for which data are available, is as high as 6.7 per cent (Row A1). The working poor constitute 5.5 percent of all people (Row B1), and number 737.7 thousand people (Row C1). When participation in the labour force is required throughout the entire year, the estimate of working poverty is as low as 5.3 per cent (Row A5) or 497.1 thousand people (Row C5). The latter constitute 3.7 percent of all people (Row B5).

According to the BLS’ definition of ‘working’, namely participating in the labour-force for at least 50 per cent of the year, an estimated 5.8 per cent of working people were poor in 2004-05 (see Row A3). This rate is similar to the United States’ working-poverty rate, although comparisons are not strictly valid because our definition of ‘poor’ is different from that used by the BLS.⁷ By comparison, 29.4 per cent of non-working people were poor in 2004-05 (Row A6). Clearly, the poverty rate among working people is much smaller than the poverty rate among non-working people. However, working people make up approximately 80 per cent of the working-age population so the working poor are numerous (594.2 thousand people – see Row C3) even in comparison with the number of non-working poor (744.1 thousand people – see Row C6). The working poor constitute 4.4 per cent of the working-age population (Row B3); the non-working poor 5.5 per cent (Row B6). By comparison, an estimated 11.0 per cent of all people (Row B7) (a little over 1.48 million people, Row C7) were poor in 2004-05.

⁷ One important difference is that ours is a relative poverty line whereas poverty lines in the United States are absolute. The US poverty line has been shown to be approximately equal to 40 per cent of U.S. median equivalised disposable income (Citro and Michael, 1995, p.112).

Over the period 2000-01 through 2004-05 the rate of working poverty was approximately constant (Rows A1-A5). The largest change was a decrease of 0.2 percentage points under the two most stringent definitions of 'working' (Rows A4 and A5). Nevertheless, the number of poor, working people increased slightly over the time period according to all definitions of 'working' (Rows C1-C5) because there was an increase in the number of people in the labour force for the requisite minimum percentage of the year. The largest increase was 72.5 thousand people (Row C1); the smallest was 20.9 thousand people (Row C4). The working-age population also increased a little between 2000-01 and 2004-05 and consequently the number of working poor, expressed as a percentage of all people, changed little from 2000-01 to 2004-05 (Rows B1-B5). Overall, the picture is one of stability in the rate and number of poor, working people.

The Persistence of Working Poverty

Are the same people in working poverty from one year to another? For how long do the working poor remain so? To answer these questions it is necessary to observe people over time and to note their poverty status and whether they are working, year by year. We conducted an analysis of poor, working people using a balanced panel of people who were aged 15 to 60 in Wave 1 and therefore aged 15 to 64 years in all five HILDA waves from 2001 through 2005 (see Table 2). They are representative of almost 11.5 million people of age 15 to 60 years in 2000-01. The same five levels of 'work' were employed as in Table 1.

There is no Section A in Table 2 corresponding to that in Table 1 because people may satisfy the definition of 'working' in some years but not in others. Rather than restrict the analysis to the 65 per cent of people who were working in all five years, we present poverty rates that are calculated as the number of people in the

balanced panel who were both poor and working in 0, 1, 2, 3, 4 or 5 years, expressed as a percentage of the total number of people in the balanced panel (Rows B1-B5). The corresponding numbers of poor, working people appear in Rows C1-C5. Two benchmark poverty measures are also given in Table 2. The first is the percentage of people in the balanced panel who were poor and non-working in zero through five years (Row B6). As before, a person is non-working in a given year if he or she is not in the labour force at any time during that year. The numbers of people who are poor and non-working in zero through five years appear in Row C6. The second benchmark is the percentage (Row B7) and number (Row C7) of all people in the balanced panel who were poor in zero through five years.

If persistent working poverty is defined as working and poor for four, or five, out of the five years then at most $(0.5 + 0.2 =) 0.7$ per cent of the working-age population satisfy the definition (Row B1). This translates into $(55.9 + 21.2 =) 77.1$ thousand people (Row C1), which is small compared with the 1.8 per cent of the working-age population (Row B6), or 200.7 thousand people (Row C6), who are in long-term non-working poverty. Given transitory working poverty is defined as being in working poverty for one, or two, out of the five years then, at least $(8.4 + 2.2 =) 10.6$ per cent of the working-age population (Row B5), or $(962.8 + 252.4 =) 1,215.2$ thousand people (Row C5) are in short-term working poverty. By comparison, 7.9 per cent of the working-age population (Row B6), or 905.4 thousand people (Row C6), are in short-term non-working poverty. These results indicate that most working poverty is transitory in nature, transitory working poverty is of larger order of magnitude than transitory non-working poverty, and persistent working poverty is of smaller order of magnitude than persistent non-working poverty.

Characteristics of the Working Poor

Who are the working poor? What is their gender, age and education level? What is their position in the household in which they live? For what percentage of the financial year did they have a job as opposed to being unemployed? Has the profile of working poverty changed over the time period of this study?

As most working poverty is transitory in nature, and the rate of working poverty varies little from year to year, these questions are addressed using cross-section data for 2000-01 and 2004-05 only (see Table 3). Furthermore, the working-poverty rate was found to be insensitive to the definition of 'working' so only one definition underlies Table 3: spending at least half of the financial year in the labour force, either in a job or looking for employment. The working poor in 2000-01 and 2004-05 are categorised according to their characteristics in Columns 1 and 4, respectively. All working people are classified in the same way in Columns 2 and 5. Working-poverty rates for people with the various attributes are recorded in Columns 3 and 6. If people with a certain characteristic constitute a larger proportion of the working poor than of all working people, then those people will tend to have a high rate of working poverty.

Gender

A larger percentage of the working poor were male than female in both years although the imbalance narrowed over time: 43.2 per cent of the working poor were women in 2000-01 (Column 1); 47.3 per cent in 2004-05 (Column 4). The proportion of working people who were women remained approximately constant at 45 per cent (Columns 2 and 5). Consequently, in 2004-05, the rate of working poverty among females, 6.0 per cent, was higher than for males, 5.5 per cent (Column 6). The situation was approximately reversed in 2000-01 (Column 3).

Age

In both years, approximately 69 per cent of the working poor were of age 21 to 54 years (Columns 1 and 4). However, the proportion of the working poor who were younger than 21 increased from 16.0 per cent in 2000-01 to 20.9 percent in 2004-05, and the proportion who were older than 54 decreased from 14.8 per cent to 10.5 percent. Over the same time period, the age composition of working people remained approximately unchanged (Columns 2 and 5). Consequently, the rate of working poverty among young adults rose from 9.4 per cent in 2000-01 to 11.8 per cent in 2004-05 and remained the highest of the three age groups (Columns 3 and 6). The rate of working poverty among people aged 55 to 64 years fell from 8.9 per cent to 5.4 per cent, the latter being only a little higher than the working-poverty rate of people aged 21 to 54.

Education

In 2004-05, a large proportion of the working poor (40.3 per cent) were not educated beyond Year 11, although a sizeable proportion (27.3 per cent) held a post-secondary diploma or certificate (Column 4). The situation was much the same in 2000-01 (Column 1). However, in 2004-05 a surprisingly high 16.1 per cent of the working poor held a university degree, about the same as the 16.3 per cent with a Year 12 education. A smaller percentage (13.7) of the working poor had a university degree in 2000-01 and 17.7 per cent were educated to Year 12. Over the same time period the educational composition of working people moved slightly towards people with a university degree or a diploma/certificate and slightly away from people with only a high-school education (Columns 2 and 5).

As expected, the rate of working poverty was inversely related to the level of education in both years (Columns 3 and 6). Although different definitions of poverty

are used in the U.S. and Australia, it appears that the association between working poverty and education may be less strong in Australia. In 2005, 14 per cent of working Americans without a high-school diploma were poor compared with 8.6 per cent of working Australians and less than two per cent of working Americans with a university degree were poor compared with 3.9 per cent of working Australians (see United States BLS, 2005, Table 3).

Relationship in Household

Most of the working poor were lone persons or people who were members of couples, either with, or without, dependents. Lone persons were over represented among the working poor in both years. They constituted 30.8 per cent of the working poor in 2004-05 (Column 4), up from 20.3 per cent in 2000-01 (Column 1). Among working people, lone persons comprised a much smaller 9.8 per cent in 2000-01 (Column 2) and 12.0 per cent in 2004-05 (Column 5). There was a consequent increase in their working-poverty rate from 12.3 per cent in 2000-01 (Column 3) to 14.7 per cent in 2004-05 (Column 6).

People who were members of couples with dependents were under represented among the working poor in both years. Although they constituted a sizeable 23.2 per cent of the working poor in 2004-05 and 28.0 per cent in 2000-01, these people made up an even larger 38.2 per cent of working people in 2004-05, about the same as in 2000-01 (38.9 per cent). Consequently, they displayed relatively low, and decreasing, rates of working poverty: 4.2 per cent in 2000-01 and 3.5 per cent in 2004-05.

People who were members of couples without dependents comprised 22.2 per cent of the working poor in 2000-01 and 19.6 per cent in 2004-05. They were equally well represented among working people in general, of whom they constituted 23.1 per

cent in 2000-01 and 24.1 per cent in 2004-05. Their poverty rate fell from 5.7 per cent to 4.7 per cent over the period of the study.

Members of couples (with or without dependents) and non-dependent students had working-poverty rates lower than that of the entire working population. Single parents, dependent students, lone persons and adults in group households (other adults) all had working-poverty rates higher than that of the working population.

Proportion of the Year Employed

Three direct causes of working poverty are low wages, under-employment and unemployment. With the data available, we were unable to calculate a wage rate for our full sample in the various financial years. We know, however, that low-wage workers are not necessarily part of the working poor because poverty is determined using household income. Indeed, there is evidence that low-paid workers are distributed throughout the income distribution but are concentrated in the middle four deciles (McGuinness and Freebairn, 2007; Wooden, Wilkins and McGuinness, 2007; and Harding and Richardson, 1999). We could not measure under-employment for our full sample either because only those who held a job within seven days of the HILDA interview were asked the number of hours they would like to work per week as well as the number of hours they actually did work.⁸ However, Rodgers (2003) found that the incidence of poverty among part-time workers is a little lower than that of the entire adult population because the majority of part-time workers live with a full-time worker.

We found that working-poverty rates are inversely related to the proportion of the year spent in employment. In both 2000-01 and 2004-05, more than half of the working poor were employed year around (Columns 1 and 4) but a much higher 80

⁸ Of the people in our sample, 8.4 per cent were classified as 'working' in 2004-05 (and the 10.4 per cent in 2000-01) but held no job when interviewed a few months later.

per cent (approximately) of all working people had a job for the entire year (Columns 2 and 5). Consequently, the working-poverty rate among people employed all year was small – 3.7 per cent in 2000-01 (Column 3) and 3.5 per cent in 2004-05 (Column 6) – compared with that of the entire working population. At the other extreme, 25.4 per cent of the working poor in 2000-01 and 19.6 per cent in 2004-05 never held a job during the financial year. But people with no employment constituted a very small percentage of working people – 3.4 per cent in 2000-01 and 2.4 per cent in 2004-05. Consequently, they display very high rates of working poverty: 43.9 per cent in 2000-01 and 46.7 per cent in 2004-05. A similar, although less extreme situation picture applies to people who were employed for some, but less than half, of the year.

IV. Poverty among People Living in Poor, Working Households

This section uses a broader concept of working poverty to that of Section III. Here, the working poor are defined as people of all ages who live in ‘working households’. Working households contain at least one working person aged 15 or older. The definition of ‘working’, however, is the same as in Section III: spending a minimum percentage of time in the labour force during a given year. A simple example illustrates the difference between the two analyses. Consider a poor household containing two adults aged 15 to 64 and two children. One adult is working, the other is not. In Section III the household would contribute one member to the working poor and one member to the non-working poor. In Section IV all four people are members of the ‘working poor’. Had the adults been older than 64 they would not have been included in the analysis of Section III but they would be included in Section IV.

The Extent of Working Poverty

Table 4 has the same format as Table 1 but the working-poverty rate has a different definition: the number of people who live in poor, working households divided by the number of people who live in working households. The rates of working poverty in Table 4, and the number of working poor, are larger than those in Table 1 but similarities are apparent. First, the rates are insensitive to the definition of 'working'. For example, in 2004-05, the estimate of working poverty ranges from 6.5 per cent (Row A5) to 7.8 per cent (Row A1) and equals 6.9 per cent when 'working' is defined as participating in the labour-force for at least 50 per cent of the year (see Row A3).

Second, working-poverty rates (Section A), and the percentage of people in the entire population who live in poor, working households (Section B), are stable over the five-year period. They showed a small decrease after 2000-01 but increased again in 2004-05 to a level within 0.2 percentage points of their original values. The number of people in poor, working households displayed similar behaviour, increasing by between 36.8 thousand (Row C3) and 98.7 thousand (Row C1) over the five years. The increase occurred largely because the number of people living in working households increased over the time period of the study.

Third, the poverty rate among people in working households is much smaller than the poverty rate among people in non-working households – those containing no one who participates in the labour force at any time during the year. The non-working poverty rate varies from 37.6 per cent in 2003-04 to 43.4 per cent in 2000-01 (Row A6). However, more than 80 per cent of people live in working households so the working poor are numerous. For example, in 2004-05, the working poor number 1.0955 million (Row C3) and constitute 5.5 per cent of the entire population (Row

B3); the non-working poor number 1.4645 million (Row C6) and constitute 7.4 per cent of the population (Row B6).

The Persistence of Working Poverty

The persistence of poverty among people living in working households was examined using a balanced panel of people who were present in all five HILDA waves from 2001 through 2005 (see Table 5). They represent approximately 18 million people of all ages in 2000-01. Table 5 has the same format as Table 2. Working-poverty rates are calculated as the number of people in poor, working households for 0, 1, 2, 3, 4 or 5 out of five years, expressed as a percentage of all people in the balanced panel (Rows B1-B5). Thus all people in the balanced panel contribute to the analysis, not just the 74 per cent of people who lived in working households in all five years.

Table 5 leads to similar conclusions as Table 2. First, little working poverty is persistent. At most $(0.7 + 0.2 =) 0.9$ per cent of the population was poor and living in working households for four, or five, out of the five years (see Row B1). This is equivalent to $(129.1 + 35.8 =) 164.9$ thousand people (see Row C1). These numbers are small compared with the $(1.5 + 2.4 =) 3.9$ per cent (Row B6), or $(279.6 + 427.5 =) 707.1$ thousand people (Row C6), who lived in poor, non-working households for four or five years.

Second, most working poverty is transitory and considerably more people experience transitory working poverty than transitory non-working poverty. At least $(10.0 + 3.2 =) 13.2$ per cent of the population (Row B5) lived in poor working households for one or two of the five years. This constitutes $(1.7969 + 0.5750 =) 2.3719$ million people (Row C5). By comparison, $(6.2 + 3.4 =) 9.6$ per cent of people

or $(1.1117 + 0.6150 =) 1.7267$ million people lived in poor, non-working households for one or two years only (Rows B6 and C6).

Characteristics of the Working Poor

Who are the people who live in poor, working households? What is their age? In what type and size of household do they live? And in which regions of the country are they located? Has the profile of working poverty changed over the five years covered by this study? Table 6 is used to address these questions. People living in poor, working households are classified according to various demographic characteristics in 2000-01 and 2004-05 (Columns 1 and 4). People living in working households are classified in the same way (Columns 2 and 5). The rate of working poverty is calculated as the number of people with a given characteristic who live in poor, working households divided by the number of people with that characteristic who live in working households (Columns 3 and 6). The 'working households' on which Table 5 is based are households containing one or more people who are in the labour force for at least half of the financial year.

Age

The 2004-05 age profile of people living in poor, working households (Column 4) displays larger proportions of children, young adults, and people aged at least 65, and smaller proportions of adults of working age than the 2000-01 profile (Column 1). A quarter of the working poor were children in 2004-05, a little higher than the 23.4 per cent that occurred in 2000-01. Another 16.7 per cent of the working poor were young adults aged 15 to 20, up from 13.4 per cent in 2000-01. A small fraction of the working poor were people aged at least 65: 4.2 per cent in 2000-01 and 5.5 per cent in 2004-05. At the end of the time period, $(45.8 + 7.0 =) 52.8$ per cent of the working poor were aged 21 to 64 years, down from $(48.1 + 10.9) = 59.0$ per cent

five years earlier. In comparison, the age profile of people living in working households remained largely unchanged from 2000-01 to 2004-05 (see Columns 2 and 5). As a result, the working-poverty rate among young adults rose from 9.6 per cent (Column 3) to 12 per cent (Column 6). Small increases in working-poverty rates were also observed for children and for adults aged at least 65. In contrast, reduced working-poverty rates were observed for adults aged 55 to 64 years (from 9.2 per cent to 4.9 per cent) and for adults aged 21-54 years (from 6.0 per cent to 5.7 per cent).

Household Type and Size

Most of the working poor are people who live in households comprised of a couple with, or without, others present. For example, the largest group of working poor in 2000-01, couples plus two other people, accounted for 20.8 per cent of the working poor (Column 1). However, a comparison of the profile of the working poor with that of people living in working households (Column 1 versus Column 2 and Column 4 versus Column 5), indicates that, in general, people in couple households are under-represented among the working poor. The exception is couple households with three or more other people in 2004-05, who constituted 23.3 per cent of the working poor (Column 4) but only 18.8 per cent of people in working households (Column 5). Lone persons also make up a large, over-represented proportion of the working poor: 11.5 per cent in 2000-01 and 15.1 per cent in 2004-05. People living in one-parent households make up small proportions of both the working poor and of people in working households but are over-represented among the working poor.

In both years the working-poverty rates among people living in one-parent households exceed that of the entire population living in working households, as does the working-poverty rate of lone persons (Columns 3 and 6). People in couple

households have working-poverty rates below that of the population living in working households, except, once again, couples with three or more other people in 2004-05.

Location

The geographic profile of people in working households has changed a little over the time period considered (Columns 2 and 5). Geographic location is determined by the distances by road between the location in which a person resides and five levels of urban centres. The level of an urban centre is determined by its population, on the assumption that the larger the population of a centre, the more services are available. These distances are used to place a person's residential location into five categories, starting with Cities, which have the shortest distances to travel to access a variety of services, followed by Inner Regional, Outer Regional, Remote and Very Remote. In Table 6 the latter three categories are combined into one, called "other regional".

In 2004-05, 62.4 per cent of people in poor, working households were located in cities, 20 per cent lived in inner-regional locations and 17.6 per cent lived in outer-regional areas (Column 4). In 2000-01, 55.8 per cent of people in poor, working households lived in cities, 25.9 per cent lived in inner-regional locations and 18.2 per cent lived in other-regional locations (Column 1). This indicates an apparent shift in working poverty away from inner-regional areas where the rate of working poverty fell from 8.9 per cent in 2000-01 (Column 3) to 6.6 per cent in 2004-05 (Column 6), and a shift towards city locations, where the working-poverty rate increased from 5.7 per cent to 6.3 per cent.

V. Summary and Conclusions

This paper has measured working poverty in two ways: the proportion of working people who are poor and the proportion of people living in working households, who are poor. A working household contains at least one working person. A working person is someone who spends at least a certain proportion of a given year in the labour force, either employed or looking for a job. The empirical analysis spans the period 2000-01 through 2004-05.

In 2004-05, approximately 2.74 million people, or almost 14 per cent of the population, lived in households with disposable incomes less than half the population median. More than half a million of these relatively poor Australians were adults who were in the labour force for at least half the year and they constituted 5.8 per cent of all working adults. A total of approximately one million relatively poor Australians lived in working households. They constituted 6.9 per cent of all adults and children living in working households in 2004-05. The working-poverty rate – 5.8 per cent or 6.9 per cent, depending upon the definition employed – remained approximately constant from 2000-01 although the number of poor, working adults and the number of people living in poor, working households both increased a little because the number of people in the labour force increased. It is not possible to determine the extent to which these substantial levels of working poverty were caused by the labour-market reforms of the mid 1990s. Such an analysis would require inter-temporally comparable data from a period prior to the reforms. The HILDA data set did not begin until 2001 and the data sets compiled by the ABS are not strictly comparable with the HILDA data. However, our results will provide a benchmark against which to evaluate the effects of the 2005 industrial-relations and welfare reforms.

Longitudinal data was used to investigate whether working poverty is a persistent, or a transitory, phenomenon. Most working poverty was found to be short-term in nature. Only 0.5 per cent of all adults were poor and working in four or more of the five years considered. However, 12.3 per cent of adults were poor and working in one or two of the five years. Approximately 0.6 per cent of the total population lived in poor, working households for four or more of the five years but a much larger 14.5 per cent of all people lived in poor, working households for one or two years.

Profiles of the working poor, based on their labour-market and demographic characteristics, were constructed. Compared with their representation among all working adults, or among all people in working households, disproportionately large numbers of the following people were among the working poor: young adults aged 15 to 20; adults with less than 12 years of education; people in single-parent households; people living alone; adults in employment for less than the entire year; people aged 65 or older; people living in regions that are distant from large, urban centres. Working-poverty rates are highest for these groups. Under-represented among the working poor are: people with a university education; couples with, and without, dependents; non-dependent students; people in employment year round; and adults 55 to 64 years. These are the groups with the lowest rates of working poverty.

Finally, although we found substantial amounts of working poverty, we observed even higher poverty rates and larger numbers of poor people among non-working adults – those who were in the labour force at no time during the year – and among people living in households whose only adults were non-working. In this sense, ‘non-working poverty’ remains the face of poverty in the new millennium.

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Table 1: Poor, Working People, Aged 15-64 Years

% financial year in the labour force		Working Poverty in				
		2000-01	2001-02	2002-03	2003-04	2004-05
<u>Section A</u>		<u>% of working people aged 15-64 who are poor</u>				
A1	greater than 0%	6.6	6.7	6.6	6.6	6.7
A2	at least 25%	6.3	6.2	6.2	6.2	6.3
A3	at least 50%	5.9	5.7	5.8	5.8	5.8
A4	at least 75%	5.7	5.3	5.3	5.4	5.5
A5	100%	5.5	5.1	5.2	5.3	5.3
		<u>% of non-working people aged 15-64 who are poor</u>				
A6	no time in LF	28.2	28.5	27.5	27.5	29.4
<u>Section B</u>		<u>% of people aged 15-64 who are poor & working</u>				
B1	greater than 0%	5.2	5.4	5.3	5.4	5.5
B2	at least 25%	4.9	4.9	4.8	4.9	5.0
B3	at least 50%	4.4	4.3	4.4	4.5	4.4
B4	at least 75%	4.1	3.8	3.8	3.9	4.0
B5	100%	3.7	3.5	3.5	3.7	3.7
		<u>% of people aged 15-64 who are poor & non-working</u>				
B6	no time in LF	5.8	5.7	5.4	5.3	5.5
		<u>% of people aged 15-64 who are poor</u>				
B7		11.0	11.0	10.7	10.7	11.0
<u>Section C</u>		<u>No. (000) of people aged 15-64 who are poor & working</u>				
C1	greater than 0%	665.2	694.8	693.3	712.5	737.7
C2	at least 25%	625.4	632.5	633.0	652.0	678.0
C3	at least 50%	565.0	558.9	577.5	593.6	594.2
C4	at least 75%	519.7	495.3	505.4	525.1	540.6
C5	100%	475.5	451.7	466.1	490.7	497.1
		<u>No. (000) of people aged 15-64 who are poor & non-working</u>				
C6	no time in LF	748.6	735.8	715.3	709.5	744.1
		<u>No. (000) of people aged 15-64 who are poor</u>				
C7		1413.8	1430.6	1408.6	1422.1	1481.8

Source: Hilda, Release 5.1, combined files for 2001, 2002, 2003, 2004 and 2005.

Notes: Responding person, cross-section weights were used.

Table 2: Persistent Poverty Among Working People, Aged 15-64 Years

% of financial year in the labour force	<u>Working Poor in Exactly</u>						
	0 years	1 year	2 years	3 years	4 years	5 years	
<u>Section B</u>		<u>% of people aged 15-64 who are poor & working</u>					
B1	greater than 0%	84.3	10.1	3.8	1.2	0.5	0.2
B2	at least 25%	85.2	9.8	3.4	1.0	0.4	0.2
B3	at least 50%	86.3	9.4	2.9	1.0	0.3	0.2
B4	at least 75%	87.5	8.7	2.5	0.9	0.3	0.1
B5	100%	88.2	8.4	2.2	0.8	0.3	0.1
		<u>% of people aged 15-64 who are poor & non-working</u>					
B6	no time in LF	88.8	5.3	2.6	1.6	1.0	0.8
		<u>% of people aged 15-64 who are poor</u>					
B7		76.7	11.4	5.4	2.8	1.9	1.7
<u>Section C</u>		<u>No. (000) of people aged 15-64 who are poor & working</u>					
C1	greater than 0%	9,687.5	1,159.1	432.8	137.7	55.9	21.2
C2	at least 25%	9,792.8	1,130.5	387.1	117.7	45.0	21.2
C3	at least 50%	9,918.7	1,078.3	333.4	109.6	36.1	18.2
C4	at least 75%	10,060.0	1,002.0	284.4	101.6	32.4	13.8
C5	100%	10,142.4	962.8	252.4	93.0	29.8	13.8
		<u>No. (000) of people aged 15-64 who are poor & non-working</u>					
C6	no time in LF	10,209.2	605.7	299.7	179.0	111.1	89.6
		<u>No. (000) of people aged 15-64 who are poor</u>					
C7		8,814.5	1,312.6	623.9	325.9	223.5	193.9

Source: Hilda, Release 5.1, combined files for 2001, 2002, 2003, 2004 and 2005.

Notes: Responding person, longitudinal weights were used.

Table 3: Characteristics of Poor, Working People, Aged 15-64 Years

Characteristic	2000-01			2004-05		
	% of Wkg Poor	% of Wkg	Wkg Pov Rate	% of Wkg Poor	% of Wkg	Wkg Pov Rate
	(1)	(2)	(3)	(4)	(5)	(6)
Gender						
Female	43.2	44.6	5.7%	47.3	45.0	6.0%
Male	56.8	55.4	6.0%	52.7	55.0	5.5%
Total	100.0	100.0	5.9%	100.0	100.0	5.8%
Age						
Young adult, 15 to 20 years	16.0	10.1	9.4%	20.9	10.2	11.8%
Adult, 21 to 54 years	69.2	80.1	5.1%	68.6	78.5	5.0%
Adult, 55 to 64 years	14.8	9.8	8.9%	10.5	11.3	5.4%
Total	100.0	100.0	5.9%	100.0	100.0	5.8%
Education						
University degree	13.7	21.2	3.8%	16.1	23.9	3.9%
Diploma/Certificate	27.8	30.6	5.4%	27.3	32.5	4.8%
Year 12	17.7	17.7	5.9%	16.3	16.5	5.7%
Year 11 or below	40.8	30.4	7.9%	40.3	27.1	8.6%
Total	100.0	100.0	5.9%	100.0	100.0	5.8%
Relationship in household						
Couple with dependents	28.0	38.9	4.2%	23.2	38.2	3.5%
Couple without dependents	22.2	23.1	5.7%	19.6	24.1	4.7%
Single parent with dependents	7.2	5.0	8.5%	7.6	4.9	8.8%
Dependent student	5.5	4.4	7.4%	6.7	5.5	7.1%
Non dependent student	7.2	11.5	3.7%	6.3	11.2	3.2%
Lone person	20.3	9.8	12.3%	30.8	12.0	14.7%
Other adult	9.6	7.5	7.6%	5.8	4.1	8.2%
Total	100.0	100.0	5.9%	100.0	100.0	5.8%
Proportion of year employed						
all	51.2	81.4	3.7%	50.8	82.9	3.5%
at least half but less than all	16.2	12.8	7.5%	18.8	12.1	8.9%
some but less than half	7.2	2.4	17.5%	10.8	2.6	24.0%
none	25.4	3.4	43.9%	19.6	2.4	46.7%
Total	100.0	100.0	5.9%	100.0	100.0	5.8%

Source: Hilda, Release 5.1, combined files for 2001, 2002, 2003, 2004 and 2005.

Notes: A 'working person' spends at least half the year in the labour force. Responding person, cross-section weights were used.

Table 4: People Living in Poor, Working Households

% financial year in the labour force	Working Poverty in					
	2000-01	2001-02	2002-03	2003-04	2004-05	
<u>Section A</u>		<u>% of people in working households who are poor</u>				
A1	greater than 0%	7.6	7.3	7.3	7.3	7.8
A2	at least 25%	7.4	6.9	6.8	6.8	7.3
A3	at least 50%	7.0	6.4	6.4	6.4	6.9
A4	at least 75%	6.7	6.0	6.0	6.0	6.6
A5	100%	6.4	5.8	5.9	5.9	6.5
		<u>% of people in non-working households who are poor</u>				
A6	no time in LF	43.4	40.5	39.0	37.6	42.8
<u>Section B</u>		<u>% of people who live in poor, working households</u>				
B1	greater than 0%	6.2	6.0	6.0	6.0	6.4
B2	at least 25%	6.0	5.6	5.5	5.5	6.0
B3	at least 50%	5.6	5.1	5.1	5.1	5.5
B4	at least 75%	5.2	4.7	4.7	4.7	5.2
B5	100%	4.9	4.4	4.5	4.5	5.0
		<u>% of people who live in poor, non-working households</u>				
B6	no time in LF	7.9	7.2	7.0	6.8	7.4
		<u>% of people who are poor</u>				
B7		14.1	13.2	13.0	12.8	13.8
<u>Section C</u>		<u>No. (000) of people who live in poor, working households</u>				
C1	greater than 0%	1,177.1	1,150.3	1,155.4	1,178.6	1,275.8
C2	at least 25%	1,132.2	1,073.0	1,076.2	1,076.7	1,187.4
C3	at least 50%	1,058.7	978.5	995.2	998.1	1,095.5
C4	at least 75%	988.8	896.1	907.1	928.9	1,036.7
C5	100%	928.2	846.0	872.2	890.9	992.8
		<u>No. (000) of people who live in poor, non-working households</u>				
C6	no time in LF	1,501.5	1,376.9	1,357.7	1,328.4	1,464.5
		<u>No. (000) of people who are poor</u>				
C7		2,678.7	2,527.2	2,513.2	2,507.0	2,740.4

Source: Hilda, Release 5.1, combined files for 2001, 2002, 2003, 2004 and 2005.

Notes: Enumerated person, cross-section weights were used.

Table 5: Persistent Poverty Among People Living in Working Households

	% of financial year in the labour force	Working Poor in Exactly					
		0 years	1 year	2 years	3 years	4 years	5 years
<u>Section B</u>		<u>% of people who are poor & working</u>					
B1	greater than 0%	81.9	11.1	4.5	1.6	0.7	0.2
B2	at least 25%	82.6	11.0	4.2	1.5	0.5	0.2
B3	at least 50%	83.5	10.7	3.8	1.4	0.4	0.2
B4	at least 75%	84.6	10.3	3.5	1.2	0.4	0.1
B5	100%	85.3	10.0	3.2	1.1	0.3	0.1
		<u>% of people who are poor & non-working</u>					
B6	no time in LF	84.6	6.2	3.4	1.9	1.5	2.4
		<u>% of people who are poor</u>					
B7		70.6	12.4	7.0	3.9	2.7	3.3
<u>Section C</u>		<u>No. (000) of people who are poor & working</u>					
C1	greater than 0%	14772.3	1999.2	815.0	289.8	129.1	35.8
C2	at least 25%	14895.8	1985.5	765.1	264.8	94.3	35.8
C3	at least 50%	15057.0	1939.0	694.4	243.9	73.1	33.9
C4	at least 75%	15057.0	1939.0	694.4	243.9	73.1	33.9
C5	100%	15381.5	1796.9	575.0	206.1	59.6	22.1
		<u>No. (000) of people who are poor & non-working</u>					
C6	no time in LF	15255.9	1111.7	615.0	351.7	279.6	427.5
		<u>No. (000) of people who are poor</u>					
C7		12741.8	2237.5	1270.8	700.1	487.8	603.1

Source: Hilda, Release 5.1, combined files for 2001, 2002, 2003, 2004 and 2005.

Notes: Enumerated person, longitudinal weights were used.

Table 6: Characteristics of People Living in Poor, Working Households

Characteristic	2000-01			2004-05		
	% of Wkg Poor	% of Wkg	Wkg Pov Rate	% of Wkg Poor	% of Wkg	Wkg Pov Rate
	(1)	(2)	(3)	(4)	(5)	(6)
Age						
Child, <15 years	23.4	22.6	7.2%	25.0	21.8	7.9%
Young adult, 15-20 years	13.4	9.7	9.6%	16.7	9.6	12.0%
Adult, 21-54 years	48.1	56.2	6.0%	45.8	55.4	5.7%
Adult, 55-64 years	10.9	8.3	9.2%	7.0	9.7	4.9%
Adult, 65 years or older	4.2	3.2	9.1%	5.5	3.5	10.7%
Total	100.0	100.0	7.0%	100.0	100.0	6.9%
Household Type & Size						
Couple only	15.4	16.3	6.6%	11.5	16.9	4.7%
Couple plus one	11.0	15.0	5.1%	11.6	16.1	4.9%
Couple plus two	20.8	25.6	5.7%	12.6	25.0	3.5%
Couple plus three or more	19.1	20.2	6.7%	23.2	18.8	8.4%
one-parent plus one	5.6	3.6	10.8%	5.3	3.8	9.5%
one-parent plus two	6.5	4.2	10.8%	7.2	4.3	11.5%
one-parent plus three or more	4.0	2.4	10.9%	7.9	2.7	17.9%
Lone person	11.5	6.4	12.5%	15.1	7.3	14.2%
Group household	3.2	2.8	7.9%	0.7	1.2	4.2%
Other household	3.0	3.5	6.0%	4.9	3.2	10.4%
Total	100.0	100.0	7.0%	100.0	100.0	6.9%
Location						
City	55.8	68.1	5.7%	62.4	68.2	6.3%
Inner regional	25.9	20.3	8.9%	20.0	21.0	6.6%
Other regional	18.2	11.6	11.0%	17.6	10.8	11.2%
Total	100.0	100.0	7.0%	100.0	100.0	6.9%

Source: Hilda, Release 5.1, combined files for 2001, 2002, 2003, 2004 and 2005.

Notes: A 'working household' contains one or more people who are in the labour force for at least half the year. Enumerated person, cross-section weights were used.