

# ECONOMIC UNCERTAINTY AND LABOUR MARKET CHANGE IN AUSTRALIA: CHALLENGES FOR PUBLIC POLICY FROM INCOME VOLATILITY

Australian National University, September 2020

CONVENORS: Professor Peter Whiteford, FASSA  
Professor Matthew Gray

Labour market circumstances in Australia have changed significantly over past decades, notably with the growing employment of women, increased educational participation of young people and changes in the processes of entry to the labour market, as well as declines in labour force participation at older ages, the latter partially reversed since the 1990s.


These labour market trends are sometimes seen as reflecting the decline in “standard employment”, where the standard employment contract was assumed to be full-time employment for a full-working career (D’Addio and Whiteford, 2007) – a pattern that applied primarily to men. For example, in Australia in the late 1970s 71% of all men aged 16 to 65 years were in full-time jobs that were not low paid, but by 2016 this had fallen to 56%. The share of women in “good full-time jobs” rose from about 24% to 30%, which only partly offset the fall in the male population in well-paid full-time jobs. Over the whole period, the share of the total population of working-age in “good full-time jobs” fell from 47% to 41% (Whiteford, 2018).

To a large extent, in Australia these trends were strongest in the 1980s and 1990s. In more recent decades, concern has shifted to new forms of work – self-employment and misclassified jobs (defined as self-employed but actually dependent employees), platform work, fixed term and temporary work and variable hours contracts (OECD, 2019a).

Related to these changing patterns of employment are changes in the distribution of earnings, often associated with employment polarisation – the loss of middle-skill jobs and the growth in both low-skill and high-skill jobs. Over recent decades, increasing attention has also been paid to earnings instability, particularly in the United States. Most recently, the OECD (2019b) has analysed the problems of the “squeezed middle class” in high income countries, where household income trends are significantly affected by these labour market and wage developments.

Instability can be conceptualised in a number of ways that have direct implications for a range of public policy issues; for example, earnings mobility is commonly referred to in reference to relatively predictable income changes associated with entry to the labour force, progression in careers and earnings and retirement.

**"Instability can be conceptualised in a number of ways that have direct implications for a range of public policy issues."**



A related concept is earnings volatility, or more unpredictable changes in incomes associated with risks related to employment or changes in family or health status.

The growth in the number of longitudinal surveys over time – such as HILDA in Australia - has facilitated studies of year-to-year variations in earnings, but more recently attention has been paid to within-year earnings volatility - the extent to which actual income in a month can vary from the average monthly income over the year. US evidence suggests that income volatility is very common, particularly for low income households.

Information from Australia is limited. Drawing on the Australian Bureau of Statistics' 2016 Survey of Characteristics of Employment, Campbell and Burgess (2018) estimated that more than half of all casual workers in Australia and 15% of permanent employees reported earnings (excluding overtime) that varied from one pay packet to the next in their main job.

**“more recently attention has been paid to within-year earnings volatility - the extent to which actual income in a month can vary from the average monthly income over the year”.**

The ABS's 2018 survey found that 24% of all employees reported earnings varying from one period to the next (excluding overtime payments), 21% often working a different number of hours each week, and 19% with no guaranteed minimum number of hours each week. The data do not identify, however, how much earnings varied from week to week.


n-depth qualitative research into the lives of people living on low incomes has also identified both the extent of income change and the impact on people's lives and capacity to cope.


**“These patterns of unpredictable incomes can lead households into financial distress and debt, recourse to payday lending, and strained family connections.”.**

For example, a study of 70 low- and moderate-income households in suburban Melbourne by the Brotherhood of St Laurence (Bowman and Banks, 2018) found that over half the participants had highly erratic variations (greater than 25%) in fortnightly incomes. One group of nine households had variations greater than 60% in their fortnightly incomes. The families often struggled to deal with these income variations.

These patterns of unpredictable incomes can lead households into financial distress and debt, recourse to payday lending, and strained family connections. They can undercut wealth accumulation during working life. At the macro level they may reduce consumer confidence, undercut wage increases, and make Budget forecasts of wage growth, tax collections and transfer spending less reliable.

The rise of digital labour markets and the platform and “gig economy” could potentially accentuate these unfavourable trends.





These are developments that potentially have implications for a wide range of areas of public policy. The workshop will aim to:

1. Identify existing data and studies of income volatility and instability in Australia assess their strengths and weaknesses, and critically assess them relative to international research;
2. Explore potential new data sources that could be developed, including qualitative research, non-government sources (financial counsellors or advice bureaus), longitudinal surveys (possibly special adaptations to HILDA), large scale analysis of financial transactions from bank data, and emerging administrative data sources (Social Services longitudinal data and ATO payroll data); and
3. Analyse potential policy responses particularly in relation to government taxation and social security policies and their responsiveness to income changes, as well as the role of labour market regulation, as well as ways in which financial advice services and financial institutions such as banks can assist consumers in dealing with instability.

The outcomes of the workshop will be promoted in the Academy summary, in online platforms such as The Conversation, and either in a special issue of an Australian journal or a University Press (ANU ePress). This will form the basis of discussions with policy makers to identify sources of funding for collecting more reliable Australian data.

