

Simple Arithmetic, Economic Policy and the Economic Well-Being of Female Indigenous Sole Parents in Australia and the US

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In this paper we focus on economic outcomes for a subset of women with dependent children who experience a high rate of economic deprivation: US and Australian female indigenous sole parents. This focus brings to centre stage a number of important general issues that relate to the economic well-being of all children of workers who have low incomes and tend to experience intermittent employment spells at low pay.

First, the comparison between indigenous female sole parents of the US and Australia makes clear that the income of children from poor families in wealthy economies depends a great deal on the prevailing institutional and political structures that determine the generosity and access to the welfare system and the extent of government intervention to lift low wages relative to the average. We suggest that this general policy environment is more important, in terms of impact on the income of indigenous sole parents, than indigenous specific policies designed to lift indigenous incomes.

Second, Australian macro outcomes and policy responses are generating changes in the wage distribution, and potential changes to the welfare system, that could considerably reduce the relative income of these families. Wages for the female unskilled and low paid are not quite keeping pace with average wage increases and the government has been moving towards making access to welfare support more difficult. It has been suggesting that perhaps the period of time that individuals can access welfare without employment should be limited and also that perhaps more welfare assistance should be directed to those in work, or towards facilitating the move into employment, rather than as income support for those without work. In a general sense, Australia seems to be moving slowly towards a wage and welfare system that is more similar to that of the US. From an income perspective the children of indigenous female sole parents and their families may have a lot to fear from these current trends.

Third, the US - Australian comparison highlights the importance of having a clear view of the relationships between paid employment, income and good outcomes for children and their mothers. Relative to the average outcomes of the country in which they live, Australian indigenous female sole parents achieve income levels well in excess of their US counterparts, but their employment rate is exceptionally low. Which group is better off: the group with higher incomes but lower employment rates (indigenous Australian sole parents) or the group with lower incomes but higher employment (Native American sole parents)? A standard micro economic analysis, which treats non-work as an activity with positive utility, suggests that the group with more income is better off – they have more income and more leisure. But it is often said that social outcomes for children in communities with low employment levels are undesirable, even if parents are choosing

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these outcomes in response to the pattern of employment opportunities, wages and government income support that they face. Children of sole parents in areas of very low employment and high rates of welfare dependency may lack role models and networks to facilitate their movement into the labour market and into a life style that can deliver more income and more choices¹. Perhaps less income and more employment for parents would produce better outcomes for indigenous children? It is certainly true that the children of Native Americans achieve higher education levels and have a much longer life expectancy than Indigenous Australians.

The employment income relationship is important. For any unskilled individual a move from non-employment to employment is likely to be associated with an increase in income. But in a macro context, policies designed to create more jobs for the less skilled and disadvantaged may lead to lower income for the group. This may result from policies that allow wages of the low skilled to fall to create jobs, and from policies designed to encourage job seeking by reducing welfare support.

There is a very difficult balance to be struck here. What would a group trade-off between more employment but lower income look like? We do not really know, although we will show that the evidence suggests that the US wage and welfare system produces additional employment, well above Australian levels, but at a substantial income cost for indigenous people. Australian policy is struggling with this employment – income dilemma although the political process continually moves the discussion away from difficult choices and, with the exception of the more radical right, appears not to accept an income-employment trade-off. At this stage, the policy debate seems to be conducted within a more optimistic middle ground framework in which it seems to be believed that it is possible to design policies for indigenous sole parents that can increase both employment and income.² But even the most optimistic do not see a quick increase in employment and income levels for indigenous people.

¹ The Australian government is clearly preparing the community for changes in the welfare system that focus more on encouraging individuals to seek employment. In “The Challenge of Welfare Dependency in the 21st Century”, a recent Discussion Paper introducing a major review of the welfare system, the Minister for Family and Community Services said,

“The government recognises that raising children, especially young children, is an important and valuable role and it is critical to give children the best start in life.... But bringing up children is only part of a lifetime. Parenting Payments (support for sole parents) cannot last forever and getting a job even a part-time job is the best way for parents and their children to achieve financial security. Also, as children grow up, parenting responsibilities change, and it becomes easier to combine paid work and family life.”

In Australia there is no time limit for receipt of sole parent benefit which is available until the dependent child is 17 years of age. Nor is there a formal requirement to be seeking paid employment. But these features may well change in the near future. The Minister is suggesting that conditions of sole parent benefit receipt may change when a child begins school and that the parent be required to fulfil a “mutual obligation” and accept some employment or education training to continue to receive income support.

² The questioning of the welfare system is not confined to members of the present government. Noel Pearson, an Aboriginal advocate and leader writes in a recent influential and thoughtful paper; “We are 95 per cent reliant on the welfare economy.”

“We have a right to welfare only in the sense that we have a right to poison ourselves. Knowing that the poison of welfare has had and continues to have such a corrosive effect on the values and relationships within our Aboriginal society – how is it that we are asserting our right to this poison?

Patently welfare is a con. It is a fraudulent excuse for an economy. It is flour laced with cyanide trace. It is not a real economy.

From 1967 they plucked us from the real economy we used to live in and placed us into the welfare economy. And steadily but surely over the past thirty years this poison has torn our society apart. It has made decent people helpless. It has corrupted a truly wondrous social system based on reciprocity and care

Part I provides a general descriptive analysis of sole parent indigenous families in Australia and the US. There has been no published study that compares employment outcomes and the level and sources of income of female sole parents for these two groups of indigenous people. The descriptive data are important in their own right and they illustrate very clearly most of the important policy issues.

Part II applies an elementary demand and supply analysis to illustrate the determination of the wage, employment and income outcomes in the unskilled labour market for indigenous sole parents. Part III applies a similar analysis to the skilled labour market. Most of the emphasis will be on Australian policies and outcomes. The US data are presented primarily for comparison purposes and we do not explicitly direct our attention to US policy for indigenous sole parents. But US outcomes illustrate that lower wages and less welfare may have resulted in more employment but they have not been associated with higher income levels for indigenous female sole parents. Part IV discusses the possible impact of improved education levels on income and employment of Australian indigenous sole parents and Part V provides concluding comments.

Before we begin there is one comment that should be made. A major difficulty is the quality and quantity of the data. Indigenous sole parents are a small proportion of the Australian population and their number in general Public Use samples is very small. The limited sample size, combined with a lack of literature comparing these two groups, suggests that the best strategy might be to adopt a discursive approach and conduct the analysis at a very basic level. The story to be told is stark, and the conclusions drawn from the simple arithmetic do not significantly change with the application of a more formal level of statistical analysis (see Y. M. Martin (1999)).

I Background

Indigenous people, who represent just over 2 per cent of the Australian population and about 1 per cent of the population of the US, have a high incidence of sole parenthood. Among indigenous mothers with dependent children the sole parent proportion is about 40 per cent for both Australia and the US³. These ratios are approximately twice as high as the sole parent ratio among white mothers with dependent children.

In both countries the personal income level of female sole parents is very low. Australian indigenous female sole parents receive about 47 per cent of the average full-time weekly earnings of a white male. The income ratio in the US is 37 per cent. In income terms Native American female sole parents are considerably disadvantaged

into exploitation and manipulation. In its daily battles against our traditional values, our culture and our kin relations – welfare routinely overpowers love.”

Noel Pearson knows there are no quick fixes but he does not accept an income–employment trade off. He argues for more government income transfers

“Aboriginal development will require greater access to resources, and it is the governments duty to ensure that these resources are made available.”

The Australian government should deliver these resources to Aboriginal councils and organisations and then they in turn will deliver the resources to individuals. The Aboriginal government will make resources available to individuals only when they give something in return. Individuals will need to satisfy a mutual obligation to be defined and monitored by Aboriginals. There is to be minimum accountability to the Australian government that provided the resources. Aboriginals must be responsible for themselves.

³ In these data dependent children are those under 17 years of age with no independent source of income. In Australia, just over one third of dependent indigenous children live in sole parent families. In the US the proportion is around 40 per cent.

relative to their Australian counterparts. Their average income level is around 77 per cent of that of Australian female indigenous sole parents (Table 1).

Indigenous sole parents also have low employment rates. In Australia only 15 per cent of indigenous sole parents are in regular employment⁴. In the US, the employment proportion is much higher, around 50 per cent⁵, just over three times that in Australia. Yet, despite their greater involvement in the labour market, Native American female sole parents receive around 25 percent less income.

Why is the employment rate of Australian indigenous sole mothers so low? It is not a straightforward matter to answer this question or to decide how to model the relationship between indigenous sole parents and the labour market. In Australian policy discussions there is no one theme. Often it is the demand side of the labour market that is stressed and it is argued that low employment rates are the result of inadequate job opportunities. This focus suggests that policy should be directed towards increasing the demand for sole parent labour. At other times the supply side of the labour market is emphasised and the low employment rate is attributed to the generosity of the welfare system. It is suggested that for most indigenous sole parents the welfare system provides a better alternative to employment⁶.

The policy discussions suggest that to capture the essence of employment and income issues, at least a simple demand and supply framework is needed, even though it will not capture the full complexity of the labour market. To increase the complexity a little, and to help further separate out the role of the wage structure and the generosity of the welfare system, we use educational attainment to divide the labour market into a low skilled and a high skilled segment. This skill division enables us to discuss the likely impact on income and employment of a set of third policy instruments directed towards increasing access to education⁷.

II The Low-Skilled Labour Market

The labour supply of low skilled indigenous sole mothers is such a small part of the aggregate unskilled labour market that it might be thought that their labour supply variations would not affect their wages, that is, the demand curve for labour that they face is horizontal. In this environment, the unskilled wage would be determined by the influence of macro factors that operate on the aggregate unskilled labour market and employment outcomes for indigenous sole mothers would be fully determined by their supply side behaviour. If the demand curve were horizontal any emphasis on inadequate job opportunities for indigenous sole parents would be misplaced.

⁴ Regular employment excludes employment in Community Development Employment Projects (CDEP). CDEP is a work-for-the-dole scheme available for Aboriginals where individual unemployment benefit entitlements for Aboriginals are converted into a combined grant for the community to be used to employ their members, usually on a part-time basis. Communities running such schemes are paid additional on-costs to assist capital purchases and to meet some recurrent costs.

⁵ In both countries the employment rate is considerably lower than the employment rate of indigenous married women with dependent children.

⁶ In addition, employment prospects may differ by geographic area. Perhaps location should be an important part of the analysis but our ability to do this is hampered by the small sample size. Many Native Americans and Indigenous Australians live in country towns or in remote communities.

⁷ The issues discussed here in the context of indigenous sole mothers are quite general and are equally important for all lone parents with low labour market skills. We focus on indigenous sole parents because the problems seem more acute for this group.

The policy discussion that stresses lack of employment opportunities, however, rejects this view of the labour market. It implies that the demand curve for indigenous sole parent labour is downward sloping and there are insufficient jobs for low skilled indigenous sole parents at the existing wage.

The slope of the labour demand curve therefore is an important issue. Given the small numbers of indigenous sole parents a downward sloping demand curve for their labour implies that they operate in a labour market that, to some extent, is different from other types of labour. This proposition might be justified on two grounds. One justification is that the geographic distribution of low skilled indigenous sole mothers is quite different from that of other types of unskilled labour. In many local labour markets – those of small country towns and remote areas⁸ – indigenous sole parents may represent a significant proportion of the type of labour that they can provide. Consequently, other things being equal, wages need to fall to increase employment. The other justification for a downward sloping demand curve is that there are high unemployment rates among groups that compete with indigenous sole parents and therefore it is reasonable to believe that employment opportunities are demand constrained. We assume that the demand curve is downward sloping and therefore supply considerations do not fully determine the level of employment.

In Figure 1 the demand curve for unskilled labour is represented by DD to allow for a possible shortage of job opportunities at existing wages. Next, we draw a horizontal line BB to represent the level of government sole parent income support. There is no time limit for this income support. This income source is available as long as the sole parent is without employment, responsible for dependent children, and not living in a de-facto or married relationship. The height of the government sole parent benefit line will differ from individual to individual, as sole parent pension payments include allowances for the number of children, their age and whether rent is paid. We place these complexities aside and draw the benefit line for the average sole parent. For the average sole parent the level of benefit support is around 70 per cent of the minimum wage.

The upward sloping supply curve of labour is represented as SS. The position of the supply curve depends in part on the level of sole parent benefits. If the benefit level is increased – that is the line BB moves upwards - the supply curve responds and it too moves upwards. The supply curve is to be expected to lie always above the sole parent benefit level.

The Australian labour market is subject to an extensive system of wage regulations, especially for low skilled labour so we place a minimum wage in Figure 1 indicated by WW. This minimum wage is not indigenous specific but applies to all unskilled jobs. Where the minimum wage is binding, the equilibrium in Figure 1 is given by WN. There is

shortage of jobs at the existing wage, indicated by the gap between the demand and supply curve.

If Figure 1 is a useful representation there are two general policy instruments impacting on this labour market - sole parent pensions (BB) and minimum wages (WW)- and there are a number of interesting interrelationships between them.

If the labour market fully clears, the minimum wage is redundant and the equilibrium wage and employment level are determined by the intersection of the demand

⁸ Forty-four per cent of indigenous sole parents live in rural areas, 43 per cent in small urban centres and 32 per cent in major urban centres (A. E. Daly and D. L. Smith (1999)).

and supply curve. This intersection is responsive to sole parent pension policy⁹. For example, reducing the pension level moves the supply curve of labour to the right, reduces the equilibrium wage, and increases employment.

Where the minimum wage is binding, it becomes the policy instrument that fully determines employment and wages and takes over the role of the sole parent pension which now only affects income distribution. At any point both policy instruments may affect income distribution but only one instrument determines employment and the wage. In Figure 1 the income level received by sole parents is given by the two shaded areas. Area A represents employment income and Area B government transfer income. All sole parents either access employment income or government transfers¹⁰.

What happens in this labour market if the minimum wage is allowed to fall? If the minimum wage is binding there will be an increase in employment as the lower wage allows more indigenous sole parents to be employed. But it is fairly clear that the sole parent group is likely to lose income as a result of this policy (Figure 2). They lose the intra-marginal wage income of those previously employed who now receive a lower wage (Area D). The scope for this loss to be offset by income gains from employment increases is limited. Additional employment only receives additional income over and above the sole parent pension that new workers were previously receiving (Area E). With a high level of sole parent benefit the mapping of minimum wage reductions into group income losses is likely to be quite close. On average, additional employment for sole parents is likely to be bought at the cost of lower income for the group and their children unless the level of the sole parent pension is very low, so that the additional income for each additional employed worker is large, or, the demand curve for unskilled labour is very elastic - so that a large number of jobs are created.

How far might a binding minimum wage fall? It seems unlikely that there can be a substantial fall if the sole parent pension is reasonably generous. The sole parent pension, operating through the supply curve, provides an effective floor below which the market wage cannot fall. Our best guess is that this floor is very close to the minimum wage and as a result minimum wage reductions alone are unlikely to be very effective at bringing about a large wage reduction. Of course, if the sole parent pension level is reduced along with the minimum wage the employment increase may be greater and the trade-off between additional employment and lower income for the group becomes starker.

Table 1 lists the income and employment data for the unskilled group of indigenous sole parents from each country. Unskilled workers are defined as those who did not complete high school. The US data are taken from the 1990 Census that includes 2442 Native American sole mothers with dependent children. The 1991 Public Use Australian Census includes few indigenous sole parents with dependent children and very few are employed. Consequently, we use data from the 1994 National Aboriginal and Torres Strait Islander Survey. Although this sample is larger many of the data cells are perhaps too small for sophisticated econometric analysis¹¹. It includes 93 employed

⁹ The name of the income support system has changed through time. Sole parent pensions are now referred to as Parenting Payments available to all parents who are on low income and the sole or primary carer of their children.

¹⁰ There is an important aspect that is ignored in Figure 1. It is possible to combine the Australian pension scheme with employment so that employed indigenous sole parents often receive a significant proportion of their income from government transfers which act as a job subsidy. We discuss this point in a later section.

¹¹ Apart from the small Australian sample size there is another problem. The income data are not ideal for each country. There are two issues. In both countries the poor often receive some government transfers in-kind, the value of which may not be included when respondents provide an estimate of their income. In

female indigenous sole parents. However, the story to be told is so clear cut that for our purpose simple arithmetic is enough¹².

To compare US and Australian income levels we need to translate US income levels into Australian equivalents. The calculation proceeds as follows. The income level of US indigenous sole parents is first expressed as a ratio of the median income of the US male full-year full-time worker. This ratio is then applied to the median income of the male full-time worker in Australia to put the income of US indigenous sole parents into Australian dollar equivalents. Of course, we could normalise sole parent income on other variables such as family income, average personal income or average earnings of all workers. Our income comparisons of the two indigenous groups are in relative terms. We do not become involved in issues related to the measurement of absolute standards of living.

There is a large difference in the unskilled proportion of indigenous sole parents in each country (Column 1, Table 1). Those who did not complete high school account for 82 per cent of Australian indigenous sole parents and 27 per cent of the US indigenous group. The average education level of Australian indigenous sole parents is very low. Some implications of a policy to increase the level of education attainment are discussed in Part IV.

Column 2 of Table 1 indicates that the employment-population rate among Australian unskilled indigenous lone mothers is 11.7 percent. Among US sole mothers the employment rate of those who did not complete high school is 26.7 per cent. The employment rate of Australian unskilled sole mothers is less than half that of their US counterparts.

It is evident from a comparison of Column 2 and Column 3 of Table 1 that the lower employment rate of Australian indigenous sole parents does not translate into a lower average income for the group. Despite an employment rate that is less than half that of their US counterparts the average income of all unskilled Australian indigenous sole parents is more than twice that of Native Americans (Column 3). The income effect of the Australian minimum wage and sole parent pension is overpowering.

As a first step to demonstrate the relative importance of these two policy instruments we first divide aggregate income between employment income and government transfers (Column 4 and Column 5, Table 1). Aggregate employment income for the unskilled group is larger in the US but less than might be expected, given the difference in the rate of employment. Although the US employment rate is more than

Australia, for example, sole parents may have access to government provided housing at subsidized rents and access to other in-kind benefits such as free pharmaceutical drugs and health care. In the US, indigenous sole parents may have access to food stamps. We are not sure how much in-kind benefits lead to an income understatement. Our best guess is that perhaps in-kind benefits lead to a greater understatement of income in the US (because of the importance of food stamps). However, our overall judgments based on the income and employment data are not likely to be greatly affected by this problem.

The other difficulty is that in both countries sole parents receive some government income transfers when employed. These income tested transfers relate in part to the number of dependent children and can be quite substantial. In Australia in-work government transfers are usually paid each two weeks and therefore are likely to be included in response to the question that asks for the value of government income transfers. In the US, the principal form of government support for the in-work poor is the Earned Income Tax Credit. There may be a substantial delay in receiving payment that may mean that a significant proportion of government transfer income may be excluded when responding to the US Census. We know very little about these sources of bias.

¹² For more sophisticated statistical models see Y. M. Martin (1999).

twice that of their Australian counterparts the employment income is only 50 per cent more.

But it is evident that Government transfers are the dominant source of the income difference across countries. As a group, unskilled Australian indigenous sole parents receive about four times the level of government transfer income received by their Native American counterparts. Government transfers are so important that if they were the only source of income they alone would result in Australian indigenous sole parents receiving approximately twice the aggregate employment and transfer income of Native Americans.

As a second step we calculate the average level of employment and transfer income for employed or not employed individuals of each country. Thus, for those employed, Column 1 of Table 2 presents the average annual earnings and Column 2 the average annual transfer income. Average earnings for the unskilled employed in Australia are more than twice that of their US counterparts and, in addition, they receive government transfers that are more than five times that of the US employed. In Australia, the unskilled employed receive about 20 per cent of their income in the form of government transfers. In the US, transfers are about 10 per cent of average employment income. In both countries, the employed typically combine employment income and government transfers but, in Australia, transfers are equivalent to 60 per cent of the earned income of the US employed.

Column 4 and 5 of Table 2 list the earnings and transfer income of those not employed. In Australia, those not employed do not typically receive earnings during the year¹³. Yet, despite this, the income of the non-employed is almost three times that of the non-employed in the US where the labour market earnings of the non-employed account for about one third of their income. Once again, the high level of Australian government transfers are evident. For the unskilled who are not employed, Australian government transfers (\$12,230) are 37 per cent larger than the average earnings of the unskilled employed in the US (\$8,909).

These calculations illustrate an important point. Even though Figure 1 has been drawn so that the minimum wage is binding and determines the equilibrium wage and employment the policy instrument that matters most for the economic well-being of Australian indigenous sole parents, measured in terms of income, is the sole parent pension scheme.

III The Skilled Labour Market

We adopt the same demand and supply framework for the skilled labour market but in this instance it does not seem sensible to believe that the minimum wage is binding. Skilled labour, those that completed high school or obtained post school qualifications, can usually earn more than the minimum wage. If the minimum wage is not binding in this market then supply side considerations will affect employment and wages and the sole parent pension should be the only effective policy instrument impacting on the wage-employment equilibrium. An increase in the sole parent pension would move the supply curve upwards, increase the wage, reduce employment and increase the income of the group.

¹³ This result may in part be affected by the way in which the data are collected. In the Australian sample respondents could provide an estimate of their annual income over the previous two weeks. Where two weekly income was provided it was adjusted and coded as an annual figure.

The data presented in Table 1 indicate that 18 per cent of Australian indigenous mothers are in the skilled group. The US proportion is 73 per cent. Once again the employment-population ratio is much lower for indigenous Australians: among those who have at least completed high school, approximately 38 per cent are employed. In the US, the employment rate is 59 per cent¹⁴.

In the skilled labour market the higher US employment level delivers more employment income but does not lead to more aggregate income than in Australia. In this instance, aggregate income exceeds that of the US by 38 per cent. The division of income between employment income and government transfers indicates that even in the skilled labour market Australian government transfers are more important than employment income. In Australia skilled indigenous sole parents receive approximately 50 per cent of their income from transfers. In the US, transfer income accounts for less than 10 per cent of all income. As an income source, Australian government transfers are seven times more important than transfers in the US.

We can illustrate the relative importance of the two policy instruments among the skilled groups by focussing on the average earnings and government transfers of the employed and not employed. The average employment income of skilled indigenous sole parents in Australia is approximately 50 per cent more than that received by their US counterparts (Table 2). And even among the employed and skilled, government transfers are important – they are seven times that of US transfer income to the employed. They account for 12 per cent of the income of the Australian skilled sole parents. Among the non-employed the average income in Australia is twice that of the US. It is evident that even in the skilled labour market Australian indigenous sole parents gain considerably by a more advantageous wage and transfer system.

IV Education Policy

If the demand and supply framework is a sensible analysis of the labour market for indigenous sole parents then it indicates that a lower minimum wage will increase employment in the unskilled labour market and a reduced sole parent pension will increase employment in the skilled labour market. But the demand and supply analysis suggests that employment increases in response to changes in these two policy instruments and can only be bought at the cost of less income for indigenous sole parents and their children. The message seems very clear.

Is there a third way? It is evident from Table 1 that higher employment-population ratios are associated with higher education levels. Those who have at least completed high school (the skilled) have an employment-population ratio that is two and half times that of those who have not.

It is easy to understand, therefore, why the political focus has been directed towards policies to increase the education level of indigenous people in the belief that this will increase the incidence of employment. Most of the schemes designed to encourage further education are available for all single parents although policy has been to encourage indigenous participation. In addition, there are indigenous specific policies. Education has

¹⁴ Because the Australian sample is very small we also calculated employment and income for married indigenous mothers with dependent children. Similar relationships to those found among employment income and government transfers for indigenous sole mothers are also evident among married indigenous mothers.

been encouraged by living allowances for indigenous children over 12 years of age who attend school and for indigenous people who attend tertiary institutions. Although there has been remarkable success in increasing the average education level of indigenous people, including those who become sole parents, it is clear from Table 1 that the average level of education is still very low¹⁵, 82 per cent of Australian indigenous sole parents are unskilled, that is have not completed high school.

Could a large increase in the level of education lead to a significant increase in employment outcomes? The evidence from Table 1 suggests that the answer is yes. But we should not be too optimistic. Even if an increase in education could lift the aggregate employment-population ratio to the 38 per cent prevailing in the skilled labour market, this is still a low level of employment and well below the US level of 59 per cent (Table 1).

Why are higher education levels not associated with much higher levels of employment for indigenous sole parents? We can think of two possible answers but deciding between them is not straightforward. There appears to be no consistent evidence.

One possible answer focuses on the demand side of the labour market. Perhaps jobs are also rationed in the skilled labour market and there are just not enough jobs for indigenous sole parents to go around? It is well known that the Australian wage system lifts low wages relative to the average, and the regulated wage structure generates a series of higher minimum wages as education and skill levels increase. Under these circumstances the wage regulation system would be more important than suggested by our analysis in Figure 1. Even among skilled sole parents there may be shortages of employment opportunities generated by an inflexible wage structure.

There is another important point that bears on the demand side of the labour market. The Australian sole parent system allows sole parents to combine part-time employment with government income support in a way that allows employment to substantially increase income without a significant loss in pension income. There is a weekly allowance for income from non pension sources which does not reduce the pension payment. Then, for each additional dollar above this, the pension is withdrawn at varying rates. Hence, part-time employment can act as an important supplement to welfare support. Some indigenous sole parents avail themselves of this opportunity and combine part-time employment with the sole parent pension. Of those employed the part-time proportion is 50 per cent, which is relatively high compared to the US proportion of 18 per cent, but the important point is that the overwhelming majority of indigenous sole parents are not employed either full or part-time. It should be expected that if the jobs were available more indigenous sole parents would combine part-time employment and government transfers.

The other possible answer to the low employment rates at higher education levels is that supply side considerations limit the employment expansion associated with more education. Perhaps many sole parents, even with higher levels of education and earning opportunities, prefer not to be employed and government transfers are sufficient to enable them to choose to spend more time with their children. If this is the prime source of the low employment level then it is consistent with our emphasis on the impact of sole parent welfare on the supply side of the skilled labour market as the principal policy instrument that determines employment. But is this a reasonable explanation? The average Australian

¹⁵ Another difference is that in Australia the distribution of indigenous lone mothers across education categories is approximately the same as that of married mothers. In the US, indigenous lone parents are not as well educated as married mothers.

employment income of \$24,364 for skilled sole parents is considerably above \$11,237 which is the average level of government transfers for the non-employed among the skilled group. Why is it that 62 per cent of skilled sole parents do not accept a job that pays around \$13,000 more than the sole parent pension? This income comparison suggests a strong preference for non-market employment.

It is not a straightforward matter to form a judgement as to the relative importance of demand and supply factors in determining the low level of employment and indeed in some geographical areas insufficient jobs may be the problem and in other areas supply side considerations may dominate. The small sample size makes it difficult to apply a sophisticated econometric analysis that may untangle the relative importance of these two effects and certainly precludes a geographical analysis.

A rough idea of the relative importance of job shortages might be gained by comparing the average employment income of skilled and unskilled indigenous sole parents. A closer inspection of Table 2 indicates the following interesting result. Among those employed, the average earnings of a skilled Australian indigenous sole parent is only 13 per cent more than that of an unskilled worker¹⁶. In the US, the earnings gap between the skill levels is 55 per cent. Furthermore, when account is taken of transfer income the income gap between skilled and unskilled in Australia is reduced to 2 per cent while the gap in the US is reduced to 45 per cent. In Australia, conditional on employment, there is no real difference in the income levels attained as education increases. Skilled indigenous sole parents earn a little more than the unskilled but much of the increase in earnings is lost by a reduction in the average level of transfers. In the US, conditional on employment, the increase in income associated with more education is significant.

What is suggested by this narrow income gap in Australia between the skilled and unskilled employed? One possibility is that the minimum wage has lifted the income of the unskilled and compressed the pay distribution. This, combined with skilled indigenous sole parents accepting relatively low paying jobs, might suggest that the demand side of the labour market is an important limitation to the increase in employment as education increases.

The other possibility is that this is evidence of supply side behaviour. Perhaps the unskilled do not accept low paying jobs, preferring to remain on the sole parent pension. They only accept jobs that pay as well as those accepted by skilled workers. Alternatively perhaps the skilled prefer to have a higher incidence of part time work. Once again it does not seem possible to untangle demand and supply influences. There is one further piece of evidence to be brought to bear on this difficult problem. The more important the supply side considerations are not to accept employment, unless it pays well, the further up the earnings distribution will be the average employment income of unskilled indigenous sole parents. It might be useful to look at the relationship between indigenous earnings and the pay distribution.

Table 3 lists the percentile position of the average weekly earnings of indigenous sole parents in the full-time earnings distribution of all workers 20-64 years of age. Table 3 indicates that the earnings of Australian indigenous sole parents place them

¹⁶ It is not clear why the earnings gap is so small in Australia. Some of the gap may be explained by cohort effects – better educated sole parents are younger and have less labour market experience. I suspect, however, that this factor is not very important. Perhaps of more importance are the decisions as to whether to work full or part time. There is evidence to suggest that part-time employment increases as education increases and hence the increase in employment earnings with education increases is muted. Whatever the reason, the rate of return to additional education, conditional on employment, is virtually zero in Australia.

further up the female earnings distribution than their US counterparts. The average earnings of unskilled Australian indigenous female sole parents places them at the 17th percentile of full-time weekly earnings of females. In the US, the average earnings of an indigenous sole parent in the unskilled labour market places them at the 8th percentile. The much higher percentile ranking of the earnings of unskilled indigenous sole parents in Australia does seem to support the idea that perhaps supply side factors are the major determinants of the low level of employment and suggests that the minimum wage may not be quite as binding as suggested in our earlier analysis. For the skilled labour market the percentile location of average earnings in the female earnings distributions is 25th in Australia and 28th in the US. The Australian ranking is marginally below that of the US.

The comparison of average income of the employed skilled indigenous sole parent with the full-time earnings distribution however, shows an advantageous position for Australia. Australian indigenous sole parents are placed 41st in both the skilled and unskilled market. This is a very high ranking and suggests that supply side considerations are important. Employed indigenous sole parents in Australia are achieving high levels of income relative to their US counterparts who are ranked at the 11th percentile in the unskilled labour market and 30th in the skilled labour market.

V Putting It All Together.

To summarise the relationships between income, wage structures, government transfers, employment and education across these two countries we employ simple arithmetic¹⁷ based on Table 1, Table 2 and presented in Table 4.

First, in both the skilled and unskilled Australian labour markets we replace Australian employment earnings with those of the US, keeping everything else constant. This involves a reduction of average employment earnings of 53 percent in the unskilled labour market, and 34 per cent in the skilled labour market (Table 2). These earnings reductions reduce the average income of all indigenous sole parents as a group by 9 and 19 per cent in the unskilled and skilled labour market respectively (Table 4). The reason for such a small decrease in aggregate income, in response to the large reductions in earnings from employment, is that the employment level is so low in Australia. When only 15 per cent of indigenous female sole parents is employed it cannot be expected that a large change in earnings will have a large effect on aggregate income of all female sole parents.

Second, US transfer payments for the employed and unemployed are substituted for Australian transfer payments in the Australian income data. In response aggregate income of the unskilled falls 62 per cent and that of the skilled falls by 42 per cent.

Third, the level of employment of Australian indigenous sole parents is increased to US levels. Australian employment is more than doubled in the unskilled labour market and increased 54 per cent in the skilled labour market. These very large increases in employment increase income by 12 and 17 per cent respectively in the unskilled and skilled categories and increase income by 13 per cent in aggregate. These are very small

¹⁷ We refer to the arithmetic as simple for two reasons. First, it ignores behavioural responses of individuals. We make no allowances for labour market choices adjusting to a new assumed regime of wages and welfare payments. Second, the calculations ignore government responses. Transfers and the earning structures are interrelated and one cannot change significantly without eliciting a political and institutional response that leads to a change in the other

income increases for such large increases in education. The reason for such small income increases is that the difference between employment and non-employment income is not that large in Australia.

Finally, the education level of Australian indigenous sole parents is increased to be the same as that of Native Americans. In response Australian aggregate income increases 9 per cent.

It seems fairly clear, in terms of the aggregate income of indigenous sole parents, that a reduction in Australian wage levels, in isolation, would be an extraordinary shock to employed sole parents. But, in aggregate, reductions in wage levels would be a relatively unimportant policy change. The change in the aggregate income level of indigenous sole mothers is small. Of course, a wage fall will create more jobs, and this will be a partial offset to the aggregate income loss. But, as the calculations of Table 4 suggest, a large increase in the rate of employment would only contribute marginally as an offset to the income loss.

Of course, it seems unlikely that such large wage reductions would be feasible because they would place many wages below the Australian welfare payment level. To bring about a sufficiently large wage reduction to significantly increase employment a wage reduction policy would need to be accompanied by a change in the sole parent pension. As indicated above, reductions in government transfers to something similar to that of the US would have a very large effect on the aggregate income of sole parents, keeping everything else constant. As we remarked earlier the sole parent pension is the dominant policy instrument that principally determines the income level of sole parents. When wages and transfer payments are reduced the income loss is considerable.

An increase in education is a necessary condition for further improvements in living standards for the group. The simple arithmetic of Table 4 suggests that a significant increase in education would increase employment and income of Australian Indigenous sole parents but perhaps not as much as might have been thought. In the short run, and in terms of an income level increase, changes in education are unlikely to be as important as policy changes that either restrict access or reduce the level of welfare payments. The gains from increased education arise from a change in the employment level and not from an increase in income of the employed. The average income of the skilled and unskilled are much the same.

It is all too obvious that our knowledge of crucial economic relationships and our ability to make progress with the data available are limited. It is not easy to untangle the interrelationship between the policy variables and their impact on employment and income. So is it a worthwhile exercise to conjecture on possible relationships and apply simple arithmetic to estimate outcomes on the basis of the crude data available¹⁸? The answer is probably yes. The Australian–US comparisons are powerful and illustrate dramatically how the welfare of indigenous groups – measured in terms of income and employment can differ so much across wealthy countries. Although the analysis can be improved it is unlikely that better data and more sophisticated analysis will change the general conclusions. The Australian wage structure and welfare system matter a great deal for indigenous people and they would suffer considerable income losses from any reforms that reduce welfare payments.

¹⁸ It is not only a matter of the sophistication of the economic and statistical analysis. There are complex issues involving matters of culture, family formation and the geographic distribution of indigenous sole parents that are important.

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Figure 1. The Unskilled Labour Market – Indigenous Sole Mothers

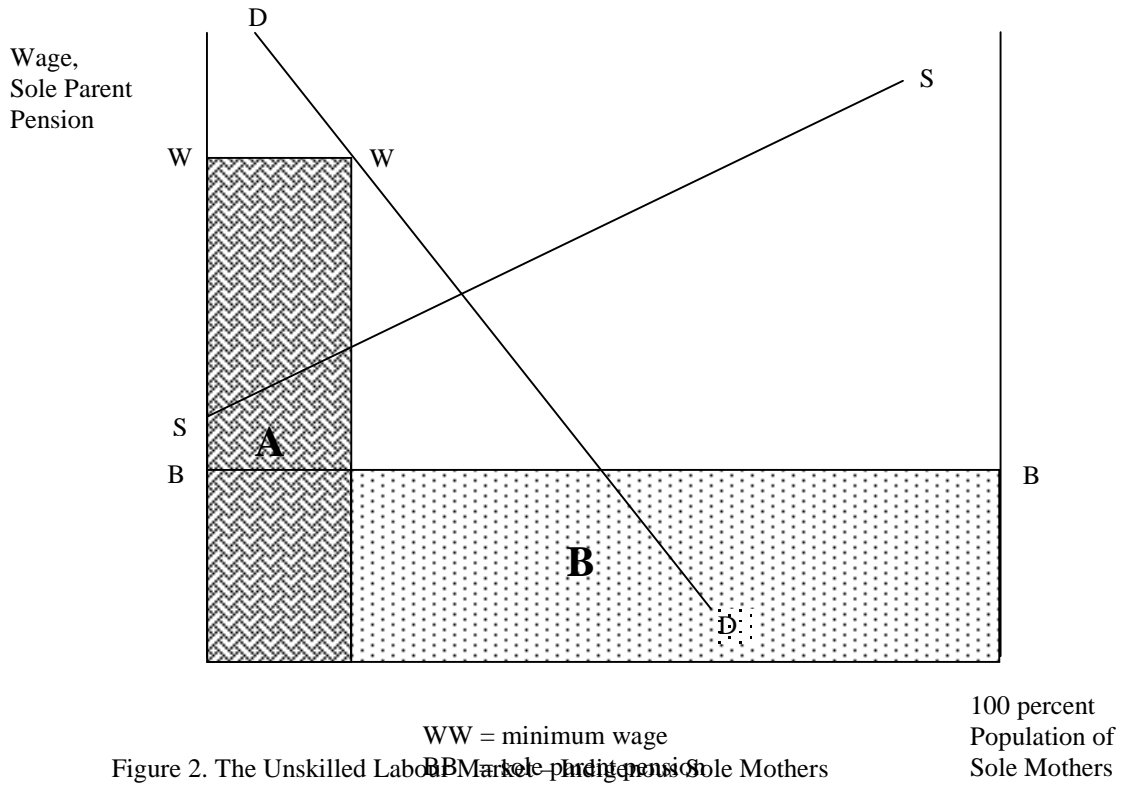
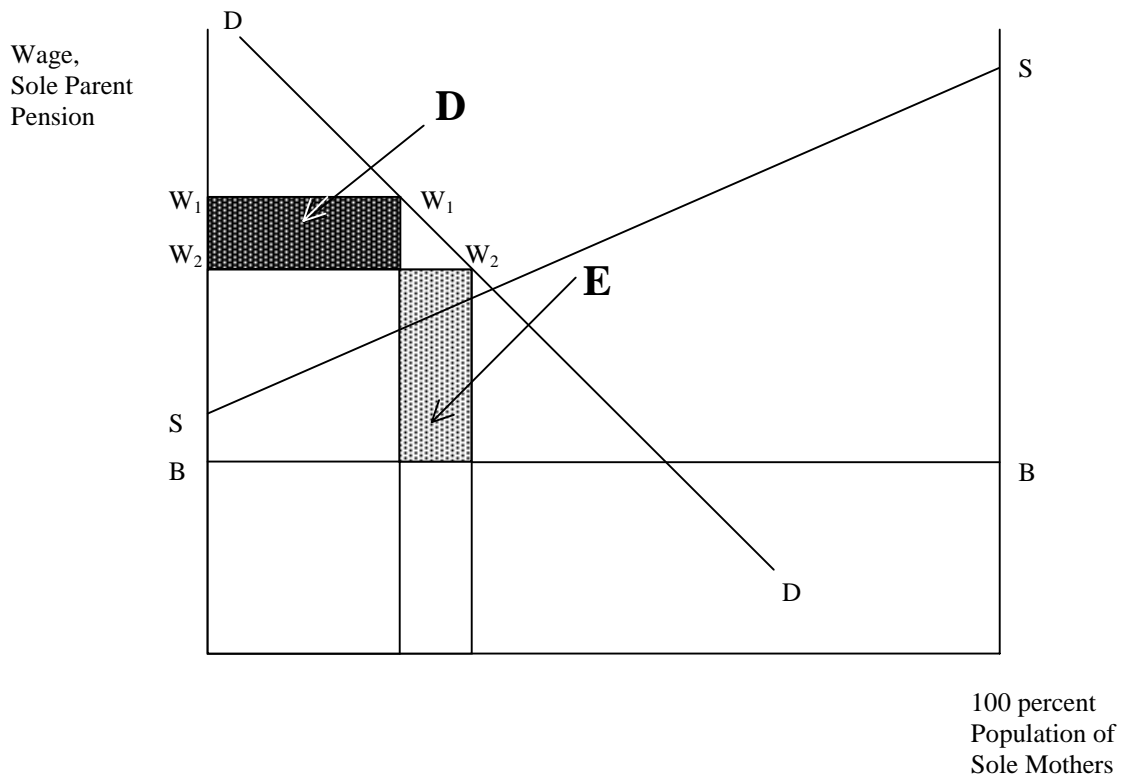


Figure 2. The Unskilled Labour Market – Indigenous Sole Mothers



**Table 1: Income and Employment - Indigenous Female Sole Parents with Dependent Children,
Australia 1994 (\$000 Australia)**

United States 1989 and

	Population Share %	Proportion Employed %	Per Capita Income \$000	Per Capita Employment Income \$000	Per Capita Government Transfer Income \$000
	1	2	3	4	5
Total					
Australia		15.1	14.5	3.0	11.1
US		49.5	10.6	7.5	1.9
Unskilled					
Australia	82.0	11.7	14.1¹	2.2	11.4
US	27.0	26.7	6.6	3.4	2.6
Skilled					
Australia	18.0	38.0	16.0	7.6	8.3
US	73.0	58.7	11.7	9.1	1.5

Source: US Census Public-Use Microdata Sample, 5 percent A File, 1990; Australia 1994 Aboriginal and Torres Strait Islander Survey, ABS.

¹ There are other sources of income in addition to employment and government transfer income.

Table 2: Income Source - Indigenous Female Sole Parents

(United States 1989; Australia 1994)

United States and Australia

	Employed ¹ \$A			Non-Employed \$A		
	Earnings 1	Transfers 2	Total 3	Earnings 4	Transfers 5	Total 6
Total						
Australia	19559	3897	23456	0	12140	12140
US	13086	1208	14291	2120	3158	5279
Unskilled						
Australia	19015	5336	24351	0	12230	12230
US	8909	922	9831	1365	3275	4641
Skilled						
Australia	21020	3343	24364		11237	11237
US	13819	480	14300	2627	3080	5707

1. Employed at the time of data collection

**Table 3: Comparison of Female Indigenous Sole Parent Income and Earnings with the Distribution of All Full Time Weekly Earnings
(United States 1989; Australia 1994)**

	Percentile Ranking			
	Unskilled		Skilled	
	Australia	United States	Australia	United States
Female Wage Distribution				
Earnings	17	8	25	28
Income	41	11	41	30
Male Wage Distribution				
Earnings	10	5	16	13
Income	27	6	27	14

Note: Wage distributions are from: Weekly Earnings of Employees (Distribution), Australia, ABS Catalogue No. 6310.0; Current Population Survey, March, CD Rom, United States.

Table 4: Hypothetical Incomes for Australian Sole Parents**Australian Labour Market)****(Substituting US Outcomes into the**

	Per Cent Change in Average Income		
	Unskilled	Skilled	Total
Substitution of US			
Earnings	-9	-19	-11
Transfers	-62	-42	-59
Employment	+12	+17	+13
Education			+9
