



FACULTY OF
BUSINESS &
ECONOMICS

Melbourne Institute Information Sheet 3/2011 on Stepping Stones/Pathways

Based on reports under the 2005–2009 Social Policy
Research Services agreement with the Department of
Education, Employment and Workplace Relations

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Stepping Stones/Pathways

Brief overview of key results

The findings regarding the theme of Stepping Stones/Pathways, as researched under the 2005-2009 Social Policy Research Services Contract, are summarised in the overview in Appendix Table 1. In the 2005-2009 period, six reports were published that examined the potential role of intermediary relatively “low-quality” jobs (so-called stepping stones) in obtaining “higher-quality” jobs in the longer term.

Discussion of the results

Of the six stepping stones studies, three considered low-pay jobs as a stepping stone, one considered casual employment as a potential stepping stone (Buddelmeyer, Wooden and Ghantous, 2006), one considered part-time employment as a stepping stone (Jeon, Wilkins and Fok, 2008) and in the last one apprenticeships/traineeships could be considered as stepping stones to employment (Fok and Tseng, 2009). The differences between the three low-pay jobs studies are the following. One report examined the escape from low pay as a discrete outcome: the low-paid individual either entered a high-pay job or they did not (Buddelmeyer *et al.*, 2007). The second report explored the wage progression from low pay more broadly, using a continuous variable wage growth as the dependent variable in their analyses (Oguzoglu and van Zijll de Jong, 2009). Finally, Fok, Freebairn and Tseng (2009) studied pathways out of low-pay jobs in a more detailed manner, allowing for six different combinations of outcomes over four periods in time, distinguishing between: persistent low pay, permanent exit to high pay (in two last years), churn to high pay (last pay is high), churn to low pay (last pay is low), exit to not employed, and other churning.

All studies find that the stepping stone theory holds. That is, being on low pay, in casual employment, or in part-time employment is a better starting point for obtaining a higher-paid, permanent or full-time job than the alternative of not being in employment at all. However, the beneficial effects are not the same for all individuals. For example, casual employment does not really help women to obtain permanent employment (although it does help them to remain in employment). However, the lack of effect may be due to women being more likely to prefer casual (and in particular if this is part-time) employment which may result in this group being less likely to try to change their employment. This potential explanation is supported by reported job satisfaction, which indicates that women are more satisfied with their jobs than men are and that whether they are in casual or permanent work does not matter for their satisfaction.

The contribution of part-time work now in obtaining full-time work in the next period is examined for single mothers only. It is found that, with the exception of mothers with children aged between 12 and 16, part-time work appears beneficial in obtaining full-time work later when compared with the alternative of not being in employment at all (Jeon, Wilkins and Fok, 2008).

Although low-pay jobs may serve as a stepping stone for some this is definitely not the case for everyone, or at least not permanently. Fok, Freebairn and Tseng (2009) find that 35 per cent of low-paid workers manage to achieve relatively sustained exits from low pay, defined as being on "high" pay during the last two years of a five-year observation period. Using one year less of information, Buddelmeyer *et al.* (2007) find that about 50 per cent of low-paid workers escape low pay "permanently". Low-paid employees are also more likely to exit employment than higher-paid employees (Oguzoglu and van Zijll de Jong, 2009).

Similarly it is found that although individuals with a disability in low-pay employment experience just as much wage growth as individuals without a disability, this does not hold for individuals with a disability that is work limiting (Oguzoglu and van Zijll de Jong, 2009). In addition, differences were found in the wage growth by education (higher education leads to larger wage growth making escape from low pay more likely), by working in larger firms or in the public sector (with both leading to larger wage growth) and by receiving on-the-job training (which also leads to larger wage growth).

The project examining the effect of taking up traineeships/apprenticeships on employment in the medium term (six years after commencing the traineeship/apprenticeship), finds clear positive effects for this group compared to similar young individuals who did not take up a traineeship/apprenticeship (Fok and Tseng, 2009).

Contribution to knowledge on this topic

- Stepping stone jobs, such as low-pay, casual or part-time jobs, as well as apprenticeships or traineeships appear to have beneficial effects, when the objective is to obtain a more desirable job in the shape of higher-paid, permanent and/or full-time jobs.
- However, the magnitude of the beneficial effects may differ between subgroups and be non-existent in some cases.

Potential policy implications

It is worthwhile to pursue/keep pursuing:

- Policy initiatives that encourage uptake of part-time jobs (and therefore part-reliance on income support), such as more generous non-withdrawal income thresholds and/or more generous withdrawal rates
- Policy initiatives that encourage uptake of temporary jobs through work credits allowing recipients to save up exempt income while not working which can then be used when a temporary job becomes available allowing recipients to keep more of their earnings than would otherwise be the case.
- Activation appears to be another policy direction that is supported by the stepping stone results. That is, the requirement for a larger group of income support recipients to look for at least part-time work (e.g. parents of school-aged children and partially disabled persons since the July 2006 reforms) appears to be helpful on the path to full-time work (e.g. when children have grown older or when improvement in the disability allows this transition).
- In addition, in the 2010 research agenda the changes to the parenting payment rules as mentioned in the previous dot point have been evaluated by Fok and McVicar (2011) finding that activation has some effect in this specific case.

Reference list of 2005-2009 Projects

- 2/06 Buddelmeyer, H., Lee, W. S., Wooden, M. and Vu, H. (2007). '[Low Pay Dynamics: Do Low-Paid Jobs Lead to Increased Earnings and Lower Welfare Dependency Over Time.](#)'
- 9/05 Buddelmeyer, H., Wooden, M. and Ghantous, S. (2006). '[Transitions from Casual Employment in Australia.](#)'
- 2/08 Fok, Y.K. and Tseng Y.P. (2009). '[Wage Transitions of Apprentices.](#)'
- 9/07 Fok, Y.K., Freebairn, J. and Tseng, Y.P. (2008). '[Pathways to Higher Pay.](#)'
- 6/07 Jeon, S.H., Wilkins, R. and Fok, Y.K. (2008). '[Full-time Work and Single Mothers.](#)'
- 3/07 Oguzoglu, U and van Zijll de Jong, M. (2009). '[Factors Affecting the Wage Progression of the Low Paid.](#)'

Related references

- 3/10 Fok, Y.K. and McVicar, D. (2011) 'Activation and Welfare Dependency.'

Appendix Table 1 Summary Table of Reports Relating to Stepping Stones/Pathways

Authors	Data	Approach	Findings
Buddelmeyer, H., Wooden, M. and Ghantous, S. (2006) Transitions from Casual Employment in Australia	HILDA 2001-2004	Descriptive analysis, and dynamic multinomial logit and dynamic mixed multinomial logit. Dependent variable: labour force status (with outcomes casual, non-casual, self employed and not employed)	<ul style="list-style-type: none"> • Casual employment is relatively fluid: 28 - 32% of all casual job holders move into some form of non-casual employment, and are at greater risk of moving into unemployment (4%) or out of the labour force (11 - 12%) in any one year than other workers (1.2 and 4%). • Average transition rates into non-casual employee jobs are higher from casual employment (23%, with 40% of transitions being with the same employer) than from unemployment (16 to 17%). • For men, casual employment strongly enhances the probability of being non-casually employed in the future, but for women it only increases the probability of being in work. • Casual employment increases the probability to be employed non-casually one year later by between 0.4 and 4.8 percentage points, compared to being unemployed. • For women, casual employment is estimated to <i>reduce</i> the probability of being a non-casual employee one year later by about 4 percentage points, compared with being unemployed. For women, casual employment enhances the probability of future employment by 6.5 percentage points. • Unlike men, female employees in casual jobs (and especially those in part-time jobs) have been found to be no less satisfied with their jobs than their counterparts in non-casual jobs.
Buddelmeyer, H., Lee, W.S., Wooden, M. and Vu, H. (2007) Low Pay Dynamics: Do Low-Paid Jobs Lead to Increased Earnings and Lower Welfare Dependency Over Time	HILDA 2001-2004	Descriptive analysis, and dynamic random effects probit and dynamic random effects multinomial logit. Dependent variables: being in low-pay employment, being in unemployment, and income support reliance (no, low, medium or high dependence)	<ul style="list-style-type: none"> • Used 4 definitions of low pay: 2/3 and 3/4 of median hourly earnings respectively with and without discounting 20% of pay for casual employees. • Men were more likely than women to make the transition from low pay to higher pay. • 23 % of low-paid workers in 2001 still are in the low-pay state by 2004 • Of those who were low paid in 2001, about 48% 'permanently' escape low paid employment. About 11% are persistently low paid and a further 10% only temporarily escape low-paid employment. About 20% are churners of various types and about 11% 'permanently' exit employment. • In terms of future employment prospects a low-paid job is unambiguously superior to a spell of unemployment. • Low-paid employment, relative to not being in employment, reduces the probability to

Authors	Data	Approach	Findings
			<p>receive more than 90% of total income from income support in the next period by approximately 7 percentage points.</p> <ul style="list-style-type: none"> • It also increases the probability of not being dependent on income support by about 4.5 percentage points.
<p>Oguzoglu, U. and van Zijll de Jong, M. (2009) Factors Affecting the Wage Progression of the Low Paid</p>	HILDA 2001-2005	<p>Descriptive analysis and panel fixed effects regressions. Dependent variable: natural logarithm of the real hourly wage rate</p>	<ul style="list-style-type: none"> • Low pay is defined as an hourly wage rate of less than 2/3 of the median wage in the selected sample (\$11.05 per hour in Wave 1 up to \$13.19 per hour in Wave 5). • A wage penalty estimated for the previously low paid is 7%, which is lower than the wage penalty of 10% estimated for the previously unemployed. • Taking a longer-term view suggests that the persistently low paid and the persistently unemployed are equally affected, with an approximate wage penalty of 25%. • Earlier findings on the persistence of low pay by Buddelmeyer <i>et al.</i> (2007) are replicated. • Being previously low paid is also associated with higher exit rates from employment. • Men with an undergraduate degree or higher exhibit a median annual wage growth of 53% compared to 26% growth for the low paid with the lowest education levels. • Wage progression of low-paid workers with disabilities is similar to those without disabilities at approximately 30% as long as the disability is not work-limiting. For work-limiting disabilities, the wage growth is somewhat lower at around 25%. • Public sector and large firms offer more opportunities for low-paid workers, facilitating wage progression. Low pay in the public sector is associated with a wage growth of around 8 percentage points more than low pay in the private sector. • The availability of on-the-job training is estimated to increase wage growth by 10 percentage points.
<p>Jeon, S.H., Wilkins, R. and Fok, Y.K. (2008) Full-time Work and Single Mothers</p>	HILDA 2001-2005	<p>Descriptive analysis and dynamic panel multinomial logit. Dependent variable: not employed, PT employed, FT employed.</p>	<ul style="list-style-type: none"> • Part-time work serves to some extent as a stepping stone to full-time work for single mothers with a youngest child under 12 and single mothers with a youngest child over 16. • Mothers in part-time work now are more likely than non-employed mothers to be in full-time work next year.
<p>Fok, Y.K., Freebairn, J. and Tseng, Y.P. (2008)</p>	HILDA 2001-2005	<p>Descriptive analysis and multinomial logit.</p>	<ul style="list-style-type: none"> • The low paid (<2/3 median pay) make up 11-13% of all employees. • They are more highly represented among women, the young, the less educated, those in

Authors	Data	Approach	Findings
Pathways to Higher Pay		Dependent variable: transition pathways (6 pathways: persistent low pay, permanent exit to high pay (two last years), churn to high pay (last pay is high), churn to low pay (last pay is low), exit to not employed, other churning)	<p>elementary occupations, casuals, sole parents and those in particular industries (e.g. agriculture).</p> <ul style="list-style-type: none"> • 5 labour market states are distinguished: low-paid with hourly wage rate less than two-thirds of the median pay; medium paid with less than median wage; high paid with over median pay; self employed; and not employed. • Movement between no pay/low pay/high pay: half of those in low pay one year move to high pay the next and about 12% move to not employed. • There are relatively small differences between people with different characteristics in transition paths over one year. • About 30% of the low paid follow the disadvantaged paths of persistent low pay, unsuccessful escapes and movement to not employed from 2001 to 2005. About 35% move to sustained higher pay, and about 25% churn across the different labour states. • Relative to between those aged 20-40, the older cohort who are initially low paid are much more likely to move to not employed as well as to higher-paid work. • Education and work experience have the expected positive influence on movement to better employment paths, however the effect is relatively small. • A tenured contract has a significant but small positive effect on the transition to higher paid, and a negative but small effect on the movement to not employed. • Changing your employer and (or) your type of contract is associated with improved outcome probabilities by about 10%. • For the lower paid observed in any one year, those previously on a high wage are less likely to be low paid in the future and more likely to return to high pay, while those who were unemployed are more likely to be in sustained low pay or move to not employed.
Fok, Y.K. and Tseng, Y.P (2009) Wage Transitions of Apprentices	LSAY 1995	Descriptive analysis and difference in difference approach matching comparable individuals. Dependent variable: labour market outcomes up to 6 years after	<ul style="list-style-type: none"> • Majority of individuals in this cohort entered apprenticeships or traineeships aged 17 to 22 and over a third of them did not complete high school education. • Trainees entered slightly later than apprentices and had a lower high school non-completion rate. • 6 years after training commencement, the difference in employment rate is 5.2 percentage points higher, the self-employment rate is 6.9 percentage points higher and the unemployment rate is 2.8 percentage points lower for apprentices vs non-

Authors	Data	Approach	Findings
		training commencement	<p>participants.</p> <ul style="list-style-type: none"> • The weekly earnings gap becomes stable at around 100 dollars more for apprentices. • Similar results for traineeships, but earnings gap is lower at 38 dollars. • Positive returns to apprenticeship and traineeship participation, not only in terms of weekly earnings, but also in terms of employment.