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For some workers, low-paying jobs might be more of a dead end than a stepping stone

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Alexander Plum

Senior Research Fellow in Applied Labour Economics, Auckland University of Technology

Kabir Dasgupta

Senior Economist, Federal Reserve Board, Auckland University of Technology

The most recent rise in Aotearoa New Zealand's minimum wage has again put the spotlight on low-wage jobs and the established belief that low wages are a starting point for workers who are quickly able to transition into higher-paid employment. But our research found the situation is not so straightforward. For older New Zealanders, possible options for finding their way out of low-wage work are quite limited.

In our research, we explored whether low-wage workers can easily transition to better-paying opportunities. We wanted to examine whether low-pay creates a lock-in effect, or whether workers in New Zealand have sufficient scope to climb up the salary ladder.

For a number of reasons, it is increasingly important to understand the labour market dynamics faced by low-wage workers. A worker's earning level corresponds to the degree of pain caused by the current cost-of-living crisis. Low-wage earners are feeling the pinch more than those with higher incomes.

Moreover, being on low-pay for a persistent period can negatively affect people's financial resilience and their ability to manage rainy day funds for unexpected expenses.

New Zealand's low-wage sector

In 2020, the OECD estimated about one in ten New Zealand workers (8%) could be classed as low-waged. This figure is substantially below the levels observed in other countries such as the United Kingdom (18%) and the United States (24%).

Previous studies have evaluated an average worker's prospects of transitioning from a low-paying job to higher-paid employment. Some studies found a certain degree of "permeability" in the labour market – being on low-pay is more of a temporary phenomenon as, over time, workers can climb up the pay ranks.

However, there are some empirical challenges when testing the earning prospects of the low-wage workers.

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First, the socio-economic backgrounds of workers are incredibly varied. Young workers, for example, are much more likely to start with low-salaried work but are better qualified when compared with older workers on low pay.

Not surprisingly, our analysis found the chances of transitioning from low-pay to higher pay depends on individual characteristics like age and qualification. And outcomes are also not set in stone, given on-the-job training and switching employers could improve earning prospects.

Administrative data on earnings

We used Stats NZ's Integrated Data Infrastructure (IDI) to track a group of low-paid workers over time. We then estimated how their chances of exiting low-pay for higher-pay jobs changed during this period. And, given that an individual's background plays a prominent role in these changes, we performed our analysis separately for an individual's age and qualification.

Our starting point was the 2013 Census. We looked at men between the ages of 20 and 60 years old in March 2013, their monthly wages and salaries between 2013 and 2016, and their qualifications.

We defined someone as low-paid if their monthly earnings were in the lowest 20% of the salary distribution. To put the threshold into perspective: the minimum wage in March 2013 stood at NZ\$13.50 for an adult, or a monthly wage of \$2,268 for a 40 hour week. Our low-pay threshold is at \$2,936.

In terms of qualifications, we used the New Zealand Qualification Framework. We focused on three qualification groups: no qualification (Level 0), medium qualification (Level 1 to 4) and high qualification (Level 5 to 6 and higher).



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Who exits low pay – and who doesn't?

We found workers aged 20 to 25 with a medium or high level of academic qualification saw the biggest move away from low wages. The probability of staying on low pay after a year dropped 9 percentage points for workers aged 20-25 with the highest level of qualification.

For workers of the same age group with a medium level of qualification, the estimated drop was 5-6 percentage points. However, the estimated decline hovered around 1-2 percentage points for workers their age without any qualification.

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On the other end of the age spectrum (50+), we found low-pay persistence hardly changed with time. There were also almost no differences between the three qualification levels.

The same pattern emerged over a longer period of time. Five years after the 2013 Census, we found only 30% of those workers in their early 20s were still on low pay. For workers in their 50s, the respective share was 60%.

Moreover, workers with qualifications were much more likely to transition into higher-paid jobs than those without. But this positive effect was substantially reduced with the worker's age.

Job hopping to improve wages

Our research illustrated that earning prospects appeared most promising for young and highly qualified workers. We took the analysis a step further by looking at whether moving into better paying firms helped wage growth.



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Using Inland Revenue tax records to look into the average firm-level wages, we found the chances of entering higher-paying firms drops with age. And while we found that having a higher qualification improves the likelihood of a transition, this positive effect subsides with age.

It is clear labour welfare policy initiatives to help low-waged workers need to be more nuanced than a simple one-size-fits-all approach. Young workers with some sort of qualification have, on average, good chances of exiting low-pay positions. However, the prospects are very different for young workers without a qualification, or for older workers.