

PER CAPITA SUBMISSION

SUBMISSION TO THE SELECT COMMITTEE INQUIRY ON JOB SECURITY

Per Capita

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About Per Capita

Per Capita is an independent progressive think tank, dedicated to fighting inequality in Australia. We work to build a new vision for Australia based on fairness, shared prosperity, community and social justice.

Our research is rigorous, evidence-based and long-term in its outlook. We consider the national challenges of the next decade rather than the next election cycle. We ask original questions and offer fresh solutions, drawing on new thinking in social science, economics and public policy.

Our audience is the interested public, not just experts and policy makers. We engage all Australians who want to see rigorous thinking and evidence-based analysis applied to the issues facing our country's future.

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Executive summary

This submission is a synthesis of recent Per Capita research into insecure work in Australia, both before and since the onset of COVID-19.

We note the following terms of reference for the Select Committee's inquiry into Job Security:

- a. the extent and nature of insecure or precarious employment in Australia;
- b. the risks of insecure or precarious work exposed or exacerbated by the COVID-19 crisis;
- c. workplace and consumer trends and the associated impact on employment arrangements in sectors of the economy including the 'gig' and 'on-demand' economy;
- d. the aspirations of Australians including income and housing security, and dignity in retirement;
- e. the effectiveness, application and enforcement of existing laws, regulations, the industrial relations system and other relevant policies;
- f. accident compensation schemes, payroll, federal and state and territory taxes;
- g. the interaction of government agencies and procurement policies with insecure work and the 'on-demand' economy; and
- h. any related matters.

Rather than address each issue separately, what follows is a discussion of the prevalence and impact of the growing lack of job security in Australia. It draws on recently published research and policy papers, which can be found at www.percapita.org.au, and which we hope will be useful to the Committee in its consideration of this widespread and growing problem.

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Insecure work in Australia

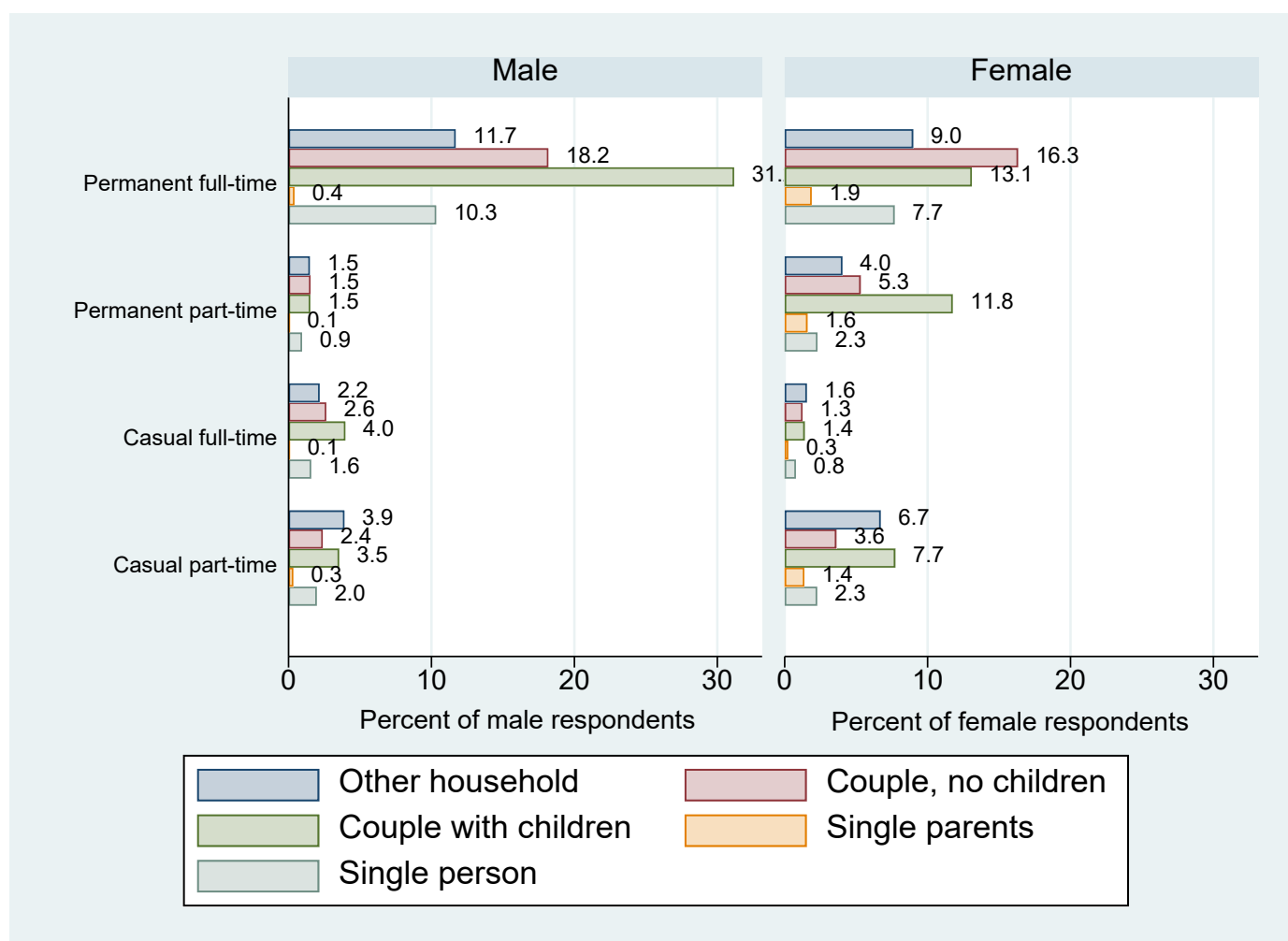
The nature and prevalence of insecure work

Australia is facing a crisis of insecure work. Less than half of Australians have a permanent, full-time, paid job, with the right to paid leave. A quarter of all employees, and more than half of young employees (aged 15-24), are casual employees.

Casual employment is characterised by irregular work patterns, intermittent and unpredictable work, lack of continuity, uncertainty as to the period of employment, and flexibility on the part of both employer and employee. Employment that does not have these characteristics is classified as permanent.

Employees in Australia currently fall under four main categories: casual part-time, casual full-time, permanent part-time and permanent full-time. The distribution of workers in these four categories varies greatly by gender and household type (see Figure 1).

Figure 1: Labour force status by household and gender (2017). Data from HILDA wave 17.



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Industries with the greatest proportion of insecure or casual workers are also the lowest paid industries in Australia (see Table 1).

*Table 1: Percentage of workers in each industry by employment category, ranked by percentage of casuals (2017).
Shading shows the five industries with the lowest median hourly pay rate
(From HILDA Wave 17).*

Industry	Casual part-time	Casual full-time	Permanent full-time	Permanent part-time	Median pay (\$/hour)
Accommodation and Food Services	57	10	22	11	21.25
Arts and Recreation Services	41	8	39	11	26.32
Retail Trade	35	4	39	22	22.84
Administrative and Support Service	24	9	55	12	25
Agriculture, Forestry and Fishing	21	31	41	6	23.18
Other Services	18	9	64	9	25.00
Education and Training	17	3	58	22	34
Health Care and Social Assistance	14	4	50	32	31.43
Transport, Postal and Warehousing	13	13	65	9	28.74
Information Media and Telecommunications	13	7	68	12	31.41
Manufacturing	9	10	75	6	28.11
Rental, Hiring and Real Estate Services	8	9	70	13	27.14
Construction	8	20	70	3	30.00
Wholesale Trade	8	6	80	6	27.10
Professional, Scientific and Technical	7	5	78	10	33.75
Public Administration and Safety	4	5	80	10	38.97
Financial and Insurance Services	3	3	78	16	36.84
Electricity, Gas, Water and Waste Services	2	9	86	2	38.45
Mining	2	16	79	3	49.76

The fallacy of casual loading

The lack of paid leave entitlements for casual workers contributes significantly to the precarity of their employment. In theory, casual workers are compensated for this almost all Modern Awards of the Fair Work Commission specify that casual employees should receive a 25% casual loading.¹ This means that in exchange for giving up paid leave, predictable or regular hours, and the right to notice prior to termination, casual employees are supposed be paid 25% more than permanent employees doing the same job.²

¹ <https://www.fairwork.gov.au/how-we-wil-help/templates-and-guides/fact-sheets/minimum-workplace-entitlements/minimum-wages>

² https://www.australianunions.org.au/casual_workers_factsheet

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However, in reality, far too many employers now designate employees as casuals without specifying or paying a casual loading. In fact, the latest research on casual loading indicates that the full 25% rate is very rarely applied.³

The Centre for Workplace Leadership at the University of Melbourne has used Australian Bureau of Statistics data to demonstrate that casual loading actually paid averages between 4% and 5%. Of the occupations examined, only school teachers came close to a 25% loading rate, at 22%.

Workers in some of Australia's lowest paid professions, including sales assistants, hospitality workers, personal carers, cleaners, laundry workers, food preparation assistants, and some labourers, received casual loading of 5% or less. Office clerks, packers, and sports and fitness workers were actually paid less than permanent workers, receiving no casual loading at all. These occupations account for more than half of all adult casual employees.

More recently, David Peetz has determined that nearly half of all workers without leave entitlements (Peetz, 2020, pp. 25–28) are not in receipt of appropriate casual loadings.

It is clear that casual employees in Australia are not being adequately compensated for sacrificing paid leave entitlements. In fact, a 2017 study found that, over the long term, casual work in Australia actually results in a wage penalty of 4% to 10%.⁴

³ <https://theconversation.com/the-costs-of-a-casual-job-are-now-outweighing-any-pay-benefits-82207>

⁴ <https://journals.sagepub.com/doi/10.1177/0018726716686666>

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The Rise of the Gig Economy

Increasingly, there are forms of work in Australia that aren't covered by traditional employment relationships at all at all. The obvious, and growing, example is workers in the "gig economy", or platform work.

The business model of platform work is based on being able to operate outside traditional forms of regulation in relation to wages, safety, superannuation and other matters long deemed essential to the wellbeing of workers.

While the overall number of people engaged in the gig economy is low, such non-standard forms of work are a challenge to traditional forms of labour market regulation and Australia's regulatory system is so far failing to keep pace with the growth of platform work.

Labour law in a number of other advanced economies has adapted to platform employment. Tribunals and courts in the USA and the UK have extended at least some protections of traditional employment law to gig economy workers.

In Australia, an attempt in 2017 by a "deactivated" Uber driver to claim unfair dismissal based on a UK precedent was rejected by the Fair Work Commission on the grounds that no employment relationship existed.

Australian workers in platform businesses are, therefore, evidently being afforded less protection under our laws than in comparable international jurisdictions. There is an urgent need for the structure of Australia's labour law to change to regulate all forms of work and not just employment as traditionally understood.

The present situation, where workers in the gig economy can effectively be employed at hourly rates well below the minimum wage, is unconscionable. It represents a return to the widespread practice of "piece work" in the late 19th century, which was effectively stamped out by Australia's industrial bargaining system over 100 years ago.

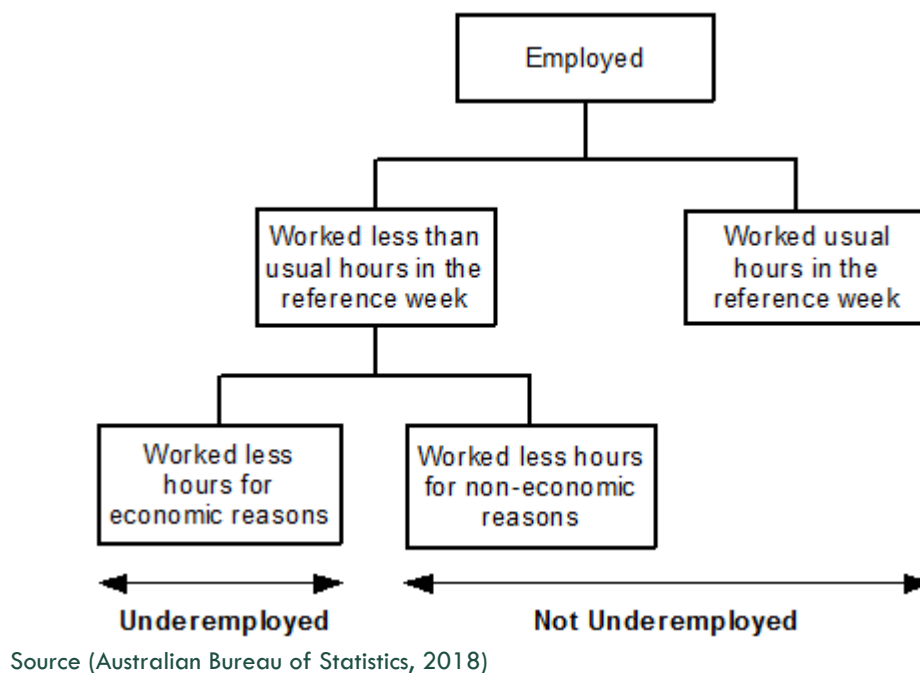
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Insecure work drives underemployment

Underemployment is a growing problem in the Australian labour force. In fact, while the unemployment rate fell 0.5 points in February 2021, to 5.8 per cent, the underemployment rate – that is, the proportion of people seeking more hours of work – rose 0.4 points to 8.5 per cent.⁵

The Australian Bureau of Statistics (ABS) ascertains time-related underemployment by measuring the number of extra hours people would like to work but are unable to due to ‘economic reasons’. This essentially refers to the number of hours of work people are able to secure in the labour market.

Figure 2: ABS framework for defining of underemployment



The ABS defines underemployed people as workers aged 15 years and over, who want, and are available to work, more hours than they currently have. This includes:

- part-time workers, both permanent and casual, who wanted to work more hours and could start additional hours either in the reference week or in the subsequent four weeks; and
- full-time workers, both permanent and casual, who worked part-time hours in the reference week for economic reasons (such as being stood down or insufficient work being available). It is assumed these people wanted to work full-time and would have done so, had the work been available.(ABS, 2018).

Underemployment is predominantly a feature of part-time work, with research suggesting that up to 94 per cent of all underemployment is experienced by part time workers (Kifle et al., 2019).

Prior to the 1991 recession, roughly 15 per cent of part time workers sought extra hours of work. This rose steeply to 30 per cent during the 1991 recession and slowly diminished to just over 20 per cent in 2008. After the Global Financial Crisis (GFC), the proportion of part-time workers seeking more hours rose again to a high of around 27.5 per cent and has since hovered between 26 and 27 per cent.

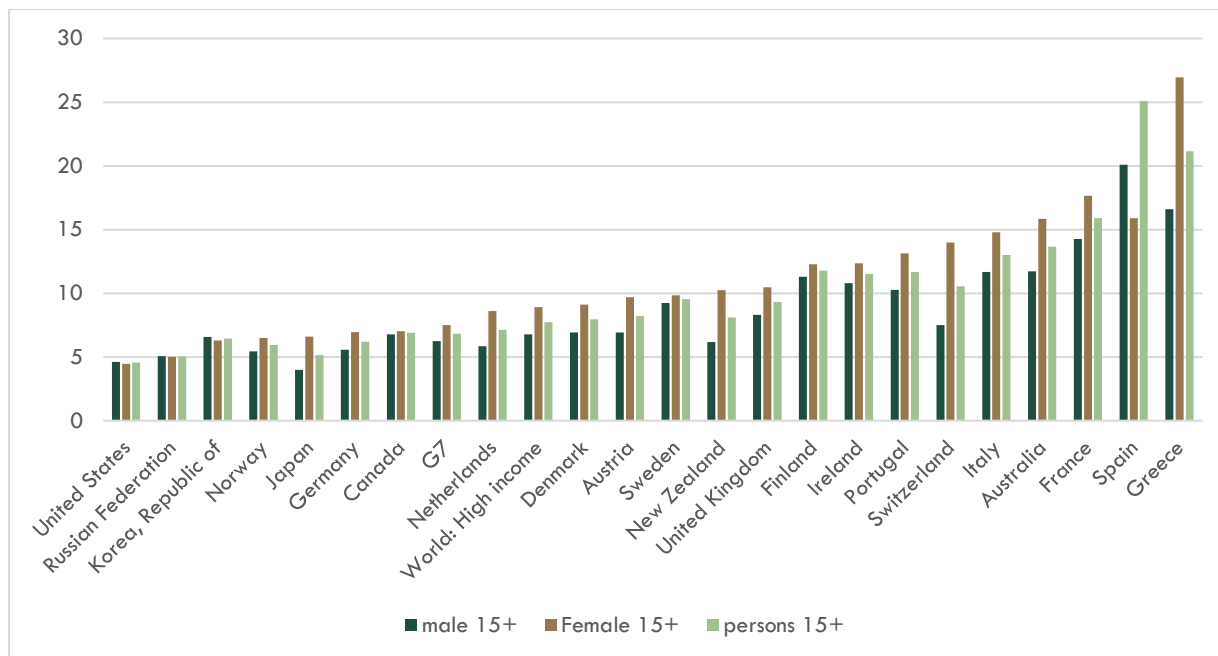
⁵ <https://www.abs.gov.au/statistics/labour/employment-and-unemployment/labour-force-australia/latest-release>

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In fact, despite the relative success of the Australian government response to the GFC, underemployment here has grown at a pace exceeding that of nearly every other comparable country in the years since.

Figure 3 below shows the rate of male, female and total underemployment of selected countries. Australia has the fourth highest level of underemployment, over double the rate of the G7 countries.

Figure 3: Time-related underemployment rate, youth and adult



Source: ILO data <https://ilostat ilo.org/topics/unemployment-and-labour-underutilization/>

Effectively, it is the increased prevalence of insecure working arrangements among part-time workers, especially those on casual or labour hire contracts that allow workers' hours to be varied unilaterally by employers, which is driving the growth of underemployment in Australia.

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Insecure work shifts wages to profits

'Flexibility' for employers means insecurity for workers

A casual employment contract agreed directly between employers and workers is only one kind of workforce insecurity: the use of labour hire arrangements, through which employers are not directly responsible for their employees' wages and conditions, is increasingly prevalent across the Australian economy.

'Flexibility' is a term used to describe insecure work conditions: it is often portrayed as offering benefits to workers and employers equally, but in practice, the concept is sold to employers by labour hire companies as a way to reduce the "ongoing burden of fixed costs":

*"Businesses need to be nimble and respond to sudden changes. Having a flexible workforce means companies can respond to economic conditions without the ongoing burden of fixed costs. An agile business is an efficient business."*⁶

In this framing, the 'burden of fixed costs' to the business refers to the secure wages and conditions of workers. Whether through direct employment of casual workers, or employment through labour hire, workforce 'flexibility' is most often a euphemism for insecure employment, and is of far greater benefit to business owners than it is to workers.

Shifting operational risk through insecure work

All forms of insecure employment are essentially tools by which to shift the risk of operating a profit-making enterprise (a business) from the owner of that enterprise to the workers who labour within it.

An employer who employs workers on a permanent basis must manage the risk associated with fluctuating workloads through business management. By employment workers through casual or labour hire contracts, a large part of this risk is transferred from the business owner to the worker: when the amount of work required to service the business drops, the worker receives reduced hours, and the employer has reduced wage costs. They do not have to pay any of the benefits or entitlements associated with permanent employment and can therefore budget for staff in a way that is purely responsive to demand.

Equally, under the 'flexible' or insecure working conditions afforded by labour hire and casualised work, when the business demands additional hours, employers are able to bring in additional labour without paying the overtime loading that would be due to permanent part- or full-time staff.

This reduces the wage bill to the business owner, effectively increasing company profits at the direct expense of workers' take-home pay and job security.

The cost of insecure work and underemployment

The financial and social implications of insecure work for individuals are manifold. Workers who are insecurely employed are unable to predict and budget for their hours and earnings week to week. They must accept the prospect of being dismissed without notice. Their real wages have fallen 26% in the last five years, while real wages for those in permanent full-time work have grown.⁷ If sickness or family emergency forces time off, they lose their pay. They are more likely to experience mental health problems, including anxiety and depression. The precariousness of their work makes it harder to secure a rental property, apply for a mortgage or bank loan, or generally plan for their future.

⁶ <https://www.laboursolutions.com.au/blog/2016/03/22/a-flexible-future-why-businesses-need-a-flexible-workforce-labour-now/>

⁷ https://www.futurework.org.au/the_dimensions_of_insecure_work

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Financial implications

In terms of financial security, insecure work and underemployment means reduced wages and lifetime earnings, the associated loss of superannuation savings and lost wage growth due to reduced experience and opportunity to advance along career paths.

Lost wages

To quantify the average earnings lost by award wage workers who are underemployed due to job insecurity, we have used the current average preferred number of additional hours of all workers, which is currently 15 hours per week.⁸

The lost earning potential of a 15 hour per week employment shortfall is significant. For a retail worker, underemployment by 15 hours per week leads to a loss of \$375, or \$19,500 per year. For a healthcare worker, underemployment of 15 hours leads to a \$490 weekly loss, and over \$25,500 per year. For most workers, these are life-changing amounts of income.

Lost superannuation

Beyond forgone income there are serious implications for reduced superannuation savings and lack of career progression. Superannuation losses at average underemployment rates range between \$1852.50 and \$3048.99 per year. For workers in insecure and low-paid jobs, the impact of these losses on eventual retirement incomes is significant.

Just two years of underemployment for a median wage healthcare worker leads to a loss of superannuation of \$4845. For a 20-year-old, this amount would compound to \$46,208 of superannuation by the end of their career based on average industry super fund performance of 8.3% minus CPI inflation of 2.5%. Three years of typical underemployment at the start of a career leads to a loss of just under \$70,000 of superannuation at retirement.

Stalled career progression

Career progression is by definition limited by insecure work and underemployment. Workers who cannot gain enough experience will not be able to progress in their career. Underemployed workers are also unable to fully utilise their knowledge and skills. This can lead to the erosion of training and education which is costly to both the individual and society at large.

Reduced bargaining power

Insecure work and underemployment significantly weaken the bargaining power of workers, exacerbating downward pressure on wage growth. According to the RBA, underemployed workers are less likely to ask for a pay rise for fear of losing their jobs, or may be more willing to trade wage increases for more hours at work (Bishop & Cassidy, 2017).

The power imbalance between employers and insecurely employed workers is growing in Australia, and contributes to wage suppression and poor productivity growth, which has knock-on effects across the national economy.

Health consequences

Beyond the financial implications of underemployment, there is a large body of evidence that highlights the social and health consequences of insecure work.

Job insecurity and underemployment is widely acknowledged to cause mental health problems, and correlated with the rates of suicide and self-harm in Australia. As young people, particularly men, experienced underemployment and job insecurity in an increasingly casualised labour market in the 1990s, concomitant suicide rates for that cohort increased (Page et al., 2013).

⁸ https://percapita.org.au/wp-content/uploads/2020/05/Slack-in-the-System_FINAL.pdf P. 15

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Studies of the UK and USA labour market have shown a significant increase in anxiety and depression among underemployed workers, who have lower scores compared to workers with their desired amount of hours in surveys of happiness, life satisfaction, whether life is worthwhile, and incidences of anxiety and depression (Bell & Blanchflower, 2019; Dooley et al., 2000).

Macro-economic costs

In economic terms, a deadweight loss describes the social cost generated by the inefficient allocation of resources in the economy.

The crisis of job insecurity in Australia is just that: a failure to properly value the skills, knowledge and time of workers, and an inability to rectify the supply and demand mismatch in the labour market. The scale of this failure can be viewed not just in terms of the impact on individuals, but as a cost to society as a whole.

The deadweight loss of underemployment due to job insecurity to the Australian economy is considerable, and results from significant losses of household income and consumption, lost superannuation savings, and lost tax revenue. There are also lost multiplier effects which, if labour market capacity was fully utilised, would result in expansive effects throughout the economy.

We have modelled the aggregate cost to the economy in lost wages due to underemployment by multiplying the average preferred number of additional hours by average or median wages in each industry.

Before the impact of COVID-19, the total number of hours lost through underemployment was equal to 15 hours per week for 1.1 million people. This results in an economy-wide loss of over 15.5 million hours of work per week, equivalent to over 411,000 full time jobs.

We found that wages lost due to underemployment across the Australian economy total over \$24 billion a year. Superannuation contributions for these wages would equal just under \$2.3 billion at 9.5%, and they would generate income taxes of at least \$4.35 billion, based on the ATO income tax calculator.

That is, the rate of underemployment in Australia before this economic crisis was already costing the Australian economy more than \$30 billion a year in lost wages (and hence consumption), savings and tax receipts.

The modelling for this analysis can be found in in our 2020 report, *Slack in the System*.⁹

⁹ Lloyd-Cape, M, [*Slack in the System: the economic cost of underemployment*](#), Per Capita, May 2020. Pp. 22 – 22.

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Conclusion

Insecure work has reached crisis levels in Australia since the GFC, and now threatens the great Australian tradition of the 'fair go'.

Almost half of Australian workers under the age of 35 are in a part-time, casual or fixed term jobs, with little job security and no certainty over their future. This has a pernicious effect on their ability to build careers and establish the economic security that is needed to achieve the standard of living Australians have come to expect over generations.

Insecure work is suppressing wage growth, crushing productivity and holding back our economic recovery from the COVID-19 recession.

For the first time in more than 60 years, wage share of GDP has fallen below 50 per cent, and almost 2 million Australian workers do not have enough hours of work to meet their needs.

Decades of deregulation of our labour market have resulted in a society in which working people are, for the first time in generations, seeing their living standards decline, even as profits and asset prices are booming.

If we are to restore the good life that Australia has always promised to working people, the fallacy that 'workplace flexibility' benefits workers must be overturned, and job security and full employment must be at the centre of the government's approach to our economic reconstruction.
