

Business  
Council of  
Australia



Supplementary Submission to the Review of the Fair  
Work Act: Employment Security and Alternative Working  
Arrangements

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## Key points

- The Business Council of Australia brings together the chief executives of more than 100 of Australia's leading companies. For almost 30 years, the BCA has provided a unique forum for some of Australia's most experienced corporate leaders to contribute to public policy reform that affects business and the community as a whole. Our vision is for Australia to be the best place in the world in which to live, learn, work and do business.
- The BCA is committed to policies that foster productivity and competitiveness and deliver shared prosperity. Access for all Australians to secure income and employment opportunities is fundamental to that aspiration.
- This supplementary submission to the Review of the Fair Work Act looks at the drivers and consequences of growth in alternative working arrangements in Australia over recent decades. In doing so, it responds to some issues raised in the ACTU discussion paper titled *The Future of Work in Australia: Dealing with Insecurity and Risk* released in October 2011 and summarised in the ACTU's submission to this review.
- The proportion of working-age Australians in work has increased strongly over recent decades and is currently near a record high. This has occurred against the backdrop of growing utilisation of non-standard working hours and arrangements, which have evolved to meet changing business needs and more diverse employee preferences.
- While some contend that more people in part-time and casual jobs or working as independent contractors implies greater employment insecurity, there is little evidence to support this claim.
- First, the evidence shows that by far the largest number of new jobs created from 2000 to 2010 (1.65 million out of 2.4 million) have been permanent jobs, whether full or part time. While casual employment grew marginally in the early 1990s, it has since remained a relatively stable proportion of total employment, at around 20 per cent.
- Second, there is no simple relationship between working arrangements and employment security. In industries such as ICT, for example, independent contractors may achieve greater employment security as a result of offering their services to a number of firms rather than just one. Labour hire offers an efficient means of matching workers in project-based occupations to available jobs, reducing the risk of unemployment between jobs. Casual working arrangements are a convenient option for students, backpackers and others in transitional circumstances who freely elect to trade-off paid leave and other benefits for a higher hourly rate of pay and the convenience of not being tied to a regular job.
- Casual work can also be a stepping stone to ongoing employment. Forty per cent of all casual employees are under 25 years, with approximately 30 per cent of casuals transitioning to non-casual employment within 12 months, and around a half within three years.

- The big change over recent decades has been the rapid growth in part-time employment – a trend that has both driven and enabled increased workforce participation by women, people with caring responsibilities and others whose circumstances make it impossible for them to pursue full-time work.
- The profound changes that have occurred in Australian society and in the nation's economic circumstances over recent decades have altered not only the nature and composition of the workforce but also the culture of workplaces and the nature and range of working hours and arrangements. The greater flexibility observed in the Australian labour market today has been unambiguously beneficial for most Australians and represents a major competitive strength for Australia relative to many other developed economies:
  - It has given Australian firms and industries greater flexibility to innovate and implement new business models where needed to sustain businesses and employment in the face of changing circumstances, consumer preferences, technologies and increasingly intense global competition.
  - It was a major factor in protecting jobs and averting growth in mortgage defaults during the global financial crisis when, without the flexibility to reduce working hours, many firms would have been forced to retrench employees.
  - As a result, unemployment in the wake of the global financial crisis was significantly lower than in many other developed countries that have greater regulation of labour markets and less flexibility.
  - It has allowed a broader diversity of individual employee circumstances and working preferences to be accommodated. Without the benefit of non-standard or flexible working hours and arrangements, many women, students, older workers and people with disabilities might not be able to access the benefits of employment at all.
  - In catering to a wider diversity of employee preferences, it has fostered an increase in overall rates of labour force participation, thereby increasing economic growth.
  - It has enabled young people in particular to blend part-time work with full-time study.
  - It has provided an important avenue for many who face significant disadvantages in the labour market – including youth, the long-term unemployed and Indigenous Australians – to develop foundation employment skills that set them on a path towards secure employment.
- Any attempt to restrict access to alternative working arrangements, mandate minimum engagement periods, treat genuine contractors as if they were employees, or extend to casual workers terms and conditions designed for ongoing, full-time employment would be counterproductive to the objective of improving employment security. In particular, such regulations would further marginalise people who are already relatively disadvantaged in the labour market, making them even more uncompetitive.

- While workplace regulation should continue to provide protection against unreasonable or unfair working conditions, when it comes to addressing the needs of those most disadvantaged in the labour market – including older workers, people with disabilities, carers and many Indigenous Australians – more regulation is not the answer. What is needed is a better way for business, government and community organisations to work together to help match difficult-to-place job seekers with available employment opportunities. The BCA is committed to developing those relationships in order to promote prosperity for all Australians.

## **Economic context**

The Australian economy has undergone profound change over recent decades. Longer-term sectoral trends have seen a progressive shift away from manufacturing and agriculture and towards service industries. Financial and exchange rate deregulation and the gradual removal of trade barriers have opened trade-exposed sectors of the economy to greater international competition. Competition and regulation reforms have improved the efficiency of infrastructure services and some domestic markets, while reform of education and labour market institutions has improved the productive capacity and mobility of the workforce. These and broader global developments have rendered Australia's economy more flexible, more resilient and more integrated into the world economy than ever before.

Even so, and despite benefiting from a prolonged period of strong economic growth, Australia now faces significant new challenges.

- The ongoing sovereign debt crisis in the Eurozone and continuing fiscal and economic weakness in the US economy presage a prolonged period of financial and economic uncertainty and political instability in the developed world. Although now more integrated into the developing Asian economic region, Australia will not be immune to the adverse effects on world growth of ongoing global instability.
- A sustained resources boom, high Australian dollar and increasing global competition are giving rise to a multi-speed economy, engendering considerable structural adjustment pressures. In this environment jobs are under threat in sectors where international cost competitiveness is diminished by the high dollar. Here, employment security for Australians depends more than ever on the capacity of firms to maintain competitiveness through adaptation, innovation and enhanced productivity.
- Looking to the longer term, with population ageing projected to see the number of working-age people supporting each person over 65 fall from around five people in 2010, to 2.7 people in 2049–50, growth in living standards will inevitably slow unless Australia can achieve a major boost to growth in productivity and participation.

Flexible labour markets and productive, inclusive workplaces will be essential to position Australia to respond to these emerging pressures. In this context, any action to reduce

labour mobility or restrict access to flexible employment arrangements will impede rather than enhance the ability of firms to provide secure jobs.

### **Australia's labour market today**

Many of Australia's labour market traditions and institutions – including those governing the setting of pay and conditions, standard working hours, and retirement arrangements – were established at a time when the average family relied on a single (usually male) breadwinner.

Just 30 years ago the vast majority of jobs (84 per cent) were full time, 17 per cent were in manufacturing and most (63 per cent) were occupied by males. Less than five per cent of the workforce had a bachelor's degree or higher. Around 50 per cent of workers belonged to a trade union. Sixty-five was the standard retirement age.

Thirty years ago, a permanent, full-time job was the 'gold standard' of employment security to which all breadwinners aspired, and many spent an entire working life with a single firm.

Today's labour market is markedly different, and employment security can no longer be thought of in terms of ongoing, full-time work or a job for life with a single employer.

Today, almost 30 per cent of all jobs – and around 40 per cent of all new additions to employment – are *part time* and 46 per cent are occupied by women. Services (including construction) now account for 85 per cent of employment, and manufacturing less than nine per cent. The workforce is far better educated, with almost a quarter of those in the workforce age range holding a bachelor's degree or higher and an overall 57 per cent having post-secondary qualifications. Eighteen per cent of the workforce are unionised. Most individuals change jobs several times during the course of a working life and there is no single accepted retirement age, with some retiring in their fifties while others are continuing to work well into their seventies.

The sectoral trend away from the production of goods and towards the production of services – common to all developed economies – has had an enormous impact on the pattern of occupational demand for labour and on the way in which workplaces and the working week are organised.

Service industries have been the source of almost all of the growth in jobs in the past two decades, with health care, construction and professional services the largest contributors to growth. And, although its growth has been more constrained, the retail sector (including food services) remains one of Australia's largest employers with almost 11 per cent of all employment.

A number of these industries operate most efficiently with some combination of permanent and temporary working hours and arrangements. Construction activities and some professional services – such as information technology and engineering – lend themselves

to contractor arrangements. Retail, food and accommodation services rely on a combination of permanent part-time and casual working arrangements to meet trading hours that extend beyond the standard 'working day and week' to evening and weekend shifts, with around 35 per cent of the employed population now working weekends as well as weekdays.

Social and demographic changes have also driven change in labour force participation and individuals' preferred working hours and arrangements. Trends in fertility and family formation and the availability of alternative child care have enabled growth in female participation in tertiary education and the labour force. Changing retirement income policies and income support arrangements for older workers, the unemployed and people with disabilities have periodically reshaped incentives for each of these groups to participate in paid work. And the growing global mobility of workers in selected occupations and industries has driven increased skilled migration outflows as well as inflows.

Labour market institutions and arrangements have progressively adapted to accommodate these trends. Whereas in the past pay and conditions for most Australian workers were set through multi-employer awards arbitrated centrally, today there is greater recourse to enterprise and workplace level agreements negotiated collectively or through individual contracts, with awards focused more on protecting minimum conditions and standards. The proportion of employees whose pay was set by award decreased from 23 per cent to 15 per cent over the decade to May 2010, as more and more wage agreements were struck through collective or individual arrangements.

Education and training institutions have also evolved to accommodate a much higher level of participation in post-secondary education and training and to provide a wider range of both formal and on-the-job vocational training.

Immigration policies have periodically been adjusted to allow for increased permanent and temporary skilled migration to meet emerging skills shortages and to offset a growing out-migration of workers in some skilled occupations.

Social security arrangements have also been progressively refined to better address the interface between welfare and work and retirement income policies to reduce barriers to the participation of older workers.

Reflecting a changing industry mix, new business models and diverse individual employee preferences, alternatives to the traditional working week are now common in many workplaces. Employers seeking to attract women, or to retain experienced older workers looking to transition to retirement, are having to offer shorter and more flexible working hours to accommodate the preferences of those groups. Employers are also increasingly recognising the importance of a healthy and constructive workplace culture and the value of workforce diversity. This, too, is leading to the development of a more flexible range of

working hours and arrangements to accommodate people with different abilities, needs and preferences.

The culmination of all of these trends is that Australian labour markets are now more flexible and inclusive than in the past, with the proportion of the working age population in employment now at close to a record high. This outcome has been unambiguously beneficial for most Australians. Not only has it helped Australian firms and industries adapt to changing circumstances and market conditions and remain competitive in the face of increasing global pressures, it has ensured that a broader diversity of individual employee circumstances and working preferences can be accommodated. It was also a major factor preserving job security during the global recession.

### **Likely future directions**

Ongoing evolution of more flexible working arrangements in response to diverse industry and individual employment needs and preferences is likely to be increasingly important to position Australian businesses to meet emerging economic challenges, including:

- facilitating structural adjustment in the context of Australia's multi-speed economy. This will require greater sectoral and geographic mobility of labour to enable workers to relocate from declining regions and sectors to areas of growth; flexible and responsive vocational training markets to enable up-skilling and re-skilling of redeployed workers; and access to skilled migrant labour for temporary or difficult-to-fill vacancies
- ensuring that business has the flexibility to respond to further global financial and economic shocks as the US and Eurozone grapple with ongoing economic difficulties and sovereign debt crises, including options to outsource work to independent contractors to contain costs or manage temporary variations in workflow
- maintaining growth and competitiveness in key services – such as retail, hospitality and tourism-related industries – that rely on flexible deployment of a domestic workforce to align with daily, weekly and seasonal trading peaks and troughs. In combination with growing internet competition for retail customers, consumers' expectations that they will be able to shop at times most convenient to them are making the concept of a standard working week increasingly anachronistic. Yet, as the Productivity Commission's Retail Industry Inquiry reported, retailers face growing concerns about their ability to trade profitably at certain times when high penalty rates apply.

From employees' point of view, the option of working non-standard hours is also likely to be increasingly important as more people endeavour to blend work with family responsibilities, caring for aged or disabled relatives, studying, pursuing greater leisure or transitioning to retirement.

Furthermore, as expanding workforce participation becomes increasingly important to address a declining workforce as the population ages, the option to engage in casual and

other non-standard working arrangements is likely to remain an important pathway to future employment security for those who face barriers to entry to the labour market.

### **Implications for employment security**

The ACTU's submission notes that it has established an inquiry, chaired by the Honourable Brian Howe AO, into the causes, extent and prevalence of insecure work in Australia, and its effects on workers and their families. This Independent Inquiry into Insecure Work will provide recommendations to improve employment security for workers and address any negative effects associated with insecure work.

#### *How does the inquiry define insecure work?*

The terms of reference for the inquiry define insecure work as that which provides workers with little social and economic security and little control over their working lives. Likely indicators of insecure work are said to include:

- unpredictable/fluctuating pay
- inferior rights and entitlements including limited or no access to paid leave
- irregular and unpredictable working hours, or working hours that while regular are too long or too short/non-social or fragmented
- lack of security and/or uncertainty over length of the job
- lack of voice at work on wages, conditions and work organisation.

An ACTU options paper on measures to promote job and income security, *The Future of Work in Australia: Dealing with Insecurity and Risk*, contends that employment insecurity is most commonly associated with 'non-standard' forms of employment such as casual, fixed term, seasonal, part time, contracting and labour hire.

The ACTU paper also cites growth in non-standard employment arrangements – including casual, part time, contractor and labour hire arrangements – as evidencing a rise in insecure work.

#### *Is there evidence of a rise in insecure work?*

In this section the BCA considers the extent of any rises in these alternative working arrangements, and whether these arrangements are in fact evidence of growing employment insecurity.

### **Casual employment**

The contention that there has been a significant increase in casual working arrangements does not appear to be borne out by data collected by the Australian Bureau of Statistics (ABS). Using the criteria of employment 'without paid leave' as a proxy for casual work, the

ABS estimates that total casual employment (full time and part time) represented around 20 per cent of total employment in November 2010, up from around 18 per cent in 1992 but little changed over the past decade (see Figure 1). (Alternatively, if owner/managers are excluded from total employment, the share of casual workers among employees only has been similarly stable at around 24 per cent over the same period.)

More casual workers are employed in the retail, accommodation and food service sectors than in any other industries. Forty per cent are under 25, a little over half are female and 70 per cent are working part-time rather than full-time hours.

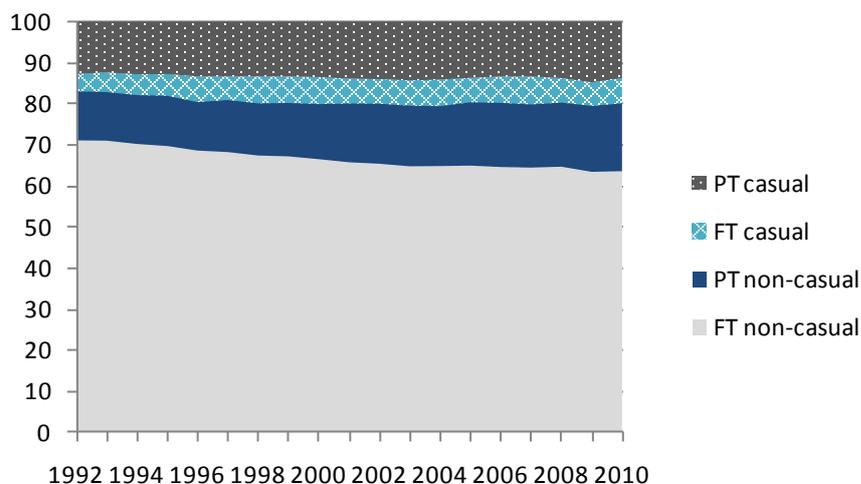
The greater concentration of casual (and permanent part-time) employment in retail and food service businesses reflects the fact that these industries are subject to significant fluctuations in demand over the course of a week and to seasonal peaks and troughs. With the progressive liberalisation of shop trading hours, consumers are increasingly demanding that stores remain open at weekends and on public holidays, which are often the most convenient times to shop. Without the flexibility of some level of casual employment, businesses in these industries would be unable to satisfy peak periods of demand, although there are clearly costs as well as benefits for employers reliant on a casual labour force.

Employee commitment, continuity and experience are all important to business competitiveness, particularly in service industries, and casual employees are less likely to display these attributes.<sup>1</sup> Given this, and the cost of recruiting and training new, inexperienced staff, it is possible that more employers would choose to convert casual work to permanent part-time work were there not such stringent restrictions on minimum hours under current award conditions.

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<sup>1</sup> For example, the experience of one BCA member after converting a number of casual positions to permanent part-time positions was that absenteeism fell significantly.

**Figure 1: Trends in alternative working arrangements 1992–2010  
(% share of total employment)**

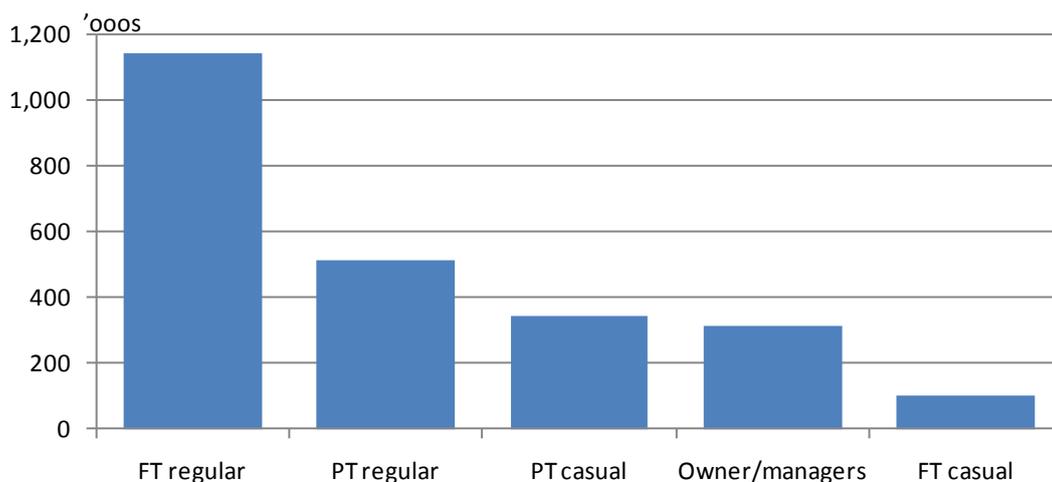


Source: ABS, *Australian Labour Market Statistics*, cat. no. 6105, October 2011. Note: total employment is divided into full-time casual, part-time casual, full-time non-casual and part-time non-casual. Owner/managers are included in total employment. Owner/managers included in non-casual categories. If owner/managers are excluded from the denominator when calculating shares of total employment for each category of employment, the result may be misleading due to compositional shifts over time in managers' forms of employment.

### Full-time non-casual

Far from casual employment dominating employment growth, Figure 2 shows beyond a doubt that the greatest absolute growth in employment over the decade to 2010 was in regular, full-time jobs, followed by regular part-time jobs. Indeed, 2.5 permanent full-time jobs were created for every casual job over the period.

**Figure 2: Absolute growth in employment by type of employment, 2000–2010**

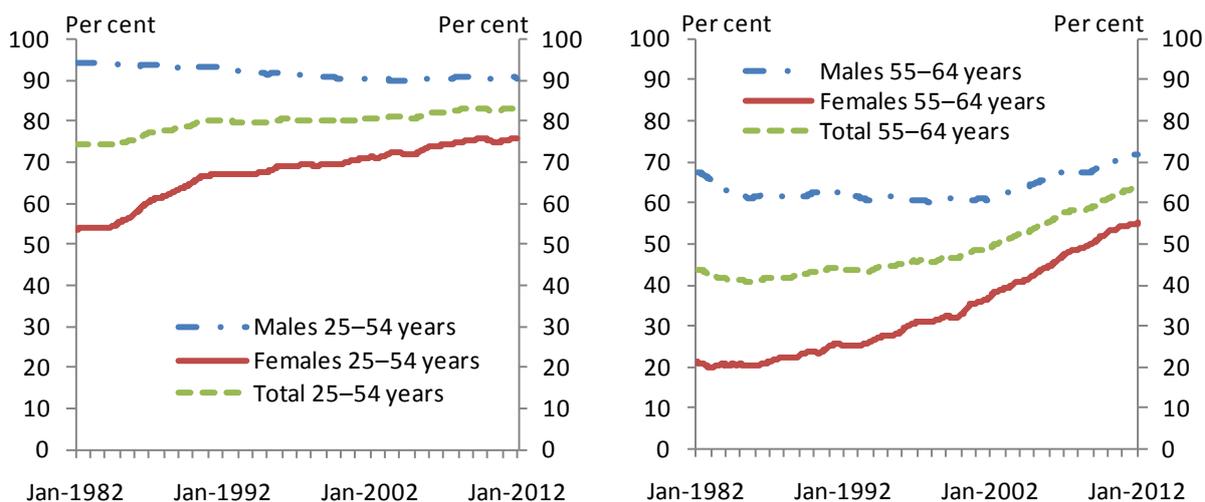


Source: ABS, *Australian Labour Market Statistics*, cat. no. 6105.0, October 2011.

**Part-time employment**

The big story of the past two to three decades has been the growth in part-time working arrangements. While the overall size of the labour force increased by a factor of less than two over the last 30 years, the number of part-time workers more than tripled. This reflected a large influx of women into the paid workforce, with prime-aged female participation rising from around 54 per cent to 76 per cent over the period. Growth in female participation more than offset a modest decline in participation by prime-aged males (Figure 3) to yield an increase in the overall labour force participation from around 61 per cent to over 65 per cent.

**Figure 3: Trends in labour force participation  
Prime aged and older aged males and females**

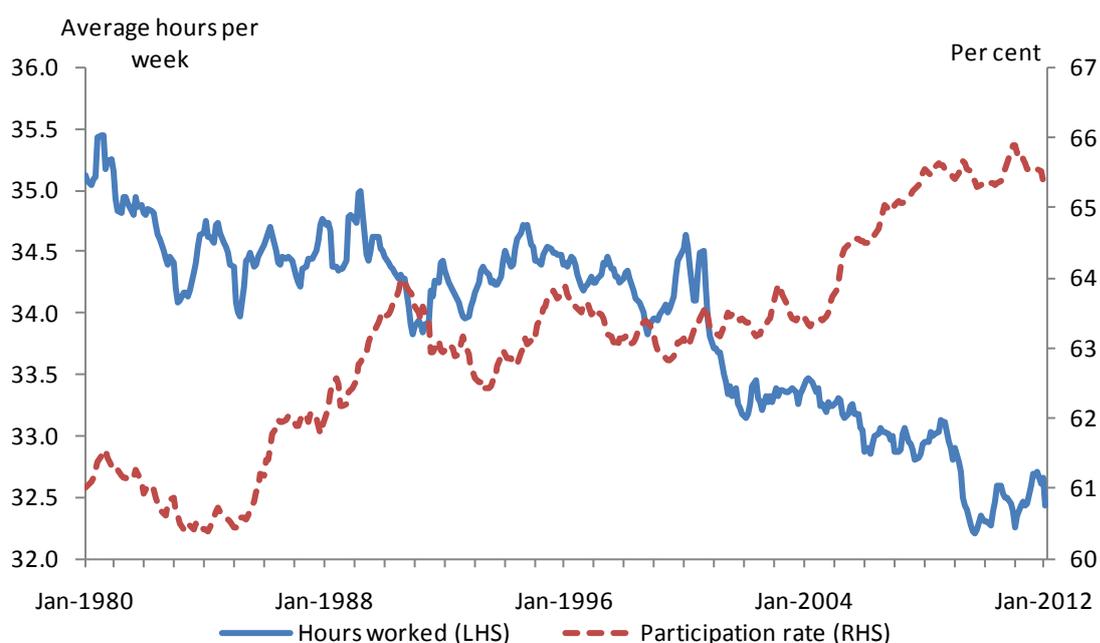


Source: ABS, *Labour Force Detailed (electronic)*, Table 1, cat. no. 6291.0.55.001, January 2012. Note: data are 12-month moving averages of original data.

A consequence of the rapid increase in part-time working arrangements, particularly for women, has been that average hours worked per employee have fallen though overall

labour force participation rates have risen (Figure 4). Far from signalling rising employment insecurity, this growth in part-time working arrangements appears overwhelmingly to imply a labour market adjusting to the preferences of some employees for shorter working hours. This enables those unable to participate in the full-time labour force to access employment opportunities they might not otherwise have had, and potentially improve rather than diminish income security for them and their families.

**Figure 4: Rising participation rates and falling average hours worked**



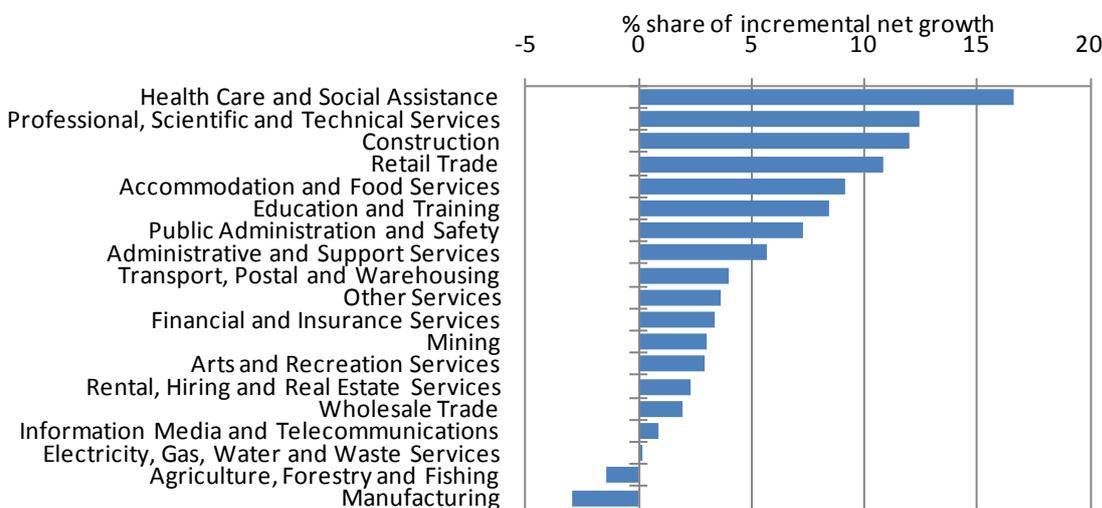
Source: ABS, Labour Force, Tables 2 and 19, cat. no. 6202.0, January 2012. Note: data are seasonally adjusted, three-month moving averages.

The large and continuing growth in part-time jobs that has occurred over recent decades reflects a combination of demand and supply factors. On the supply side, a major driver has been the increased participation in the workforce of women with children. This has been enabled by fertility trends, changing social norms, improved educational opportunities for women, paid maternity leave and the availability of subsidised child care, amongst other things.

On the demand side, Australia’s changing industrial structure – in particular, the big growth in the share of service sectors such as health and community services, financial and business services, retail and wholesale trade and hospitality services in the economy – along with partial deregulation of trading hours and changes in the way work is organised in a number of these industries, have created increased demand for employees wanting to work part time, or outside the traditional working week or working day, or at times of peak seasonal demand.

Figure 5 shows the sectoral composition of employment creation over the period since 1984, highlighting the shift toward services industries.

**Figure 5: Where new jobs have come from, 1984–2011**



Source: ABS, *Labour Force Detailed* (quarterly), Table 4, cat. no. 6291.0.55.003, November 2011.

### Independent contracting

Independent contractors operate their own business and contract to perform services for others, but do not generate income by managing staff or selling direct to the public (the ABS classifies managers who do these things as ‘other business operators’). There were 1.1 million independent contractors in the workforce in November 2010, representing 9.8 per cent of total employment. While this was slightly up on the 9.2 per cent share recorded in 2008, there was an accompanying decline in ‘other business operators’, suggesting some substitution between the two.

Around three quarters of independent contractors are males, predominantly engaged in either construction (30.7 per cent) or professional and technical services (14.4 per cent). Thirty per cent are technicians and trades workers, and 21.6 per cent are professionals. Over three quarters are aged over 35. There is some evidence that older workers in these occupational groups often opt to move from being an employee to operating their own business, for example as consultants, in order to gain more control over the hours and conditions under which they work as they transition to retirement.<sup>2</sup>

<sup>2</sup> Drago R., Wooden M., and Black D., “Who Wants and Gets Flexibility: Changing Work Hours Preferences and Life Events” in *Industrial and Labor Relations Review*, Vol. 62, No. 3, Article 8, 2009.

## Labour hire

Though growing in recent years, labour hire arrangements remain a small fraction of the total workforce.<sup>3</sup> Over the period 1990–2002 the proportion of labour hire employment increased almost fivefold yet still represented only around 3.9 per cent of all employees.<sup>4</sup>

### *Impacts of alternative working arrangements*

The ACTU proposes that the growth of alternative working arrangements has had a negative impact on workers, their families and the wider community. The ACTU contends these working arrangements mean lower pay, unpredictable income, fewer rights and entitlements at work and reduced control over working hours and arrangements.

Whether engagement in these ‘non-standard’ forms of employment is an indicator of employment insecurity depends on the circumstances of the individuals involved. For many, alternative working arrangements are freely entered into as the best fit with their personal circumstances and preferences and in no way signify insecurity.

To describe all non-standard working arrangements as insecure is therefore to greatly overstate the extent of the problem.

Consistent with this, the Productivity Commission found in 2005 that ‘many non-traditional workers express high levels of satisfaction with their jobs’ and that ‘for those who are unemployed or out of the labour force, non-traditional work provides a means of gaining employment and, for many, a stepping stone to ongoing employment’.<sup>5</sup>

Similarly, a survey by Adecco found that 41 per cent of temporary workers chose that form of employment because they wanted to ‘maintain a flexible lifestyle’, with a further 32 per cent seeing it as a ‘stepping stone to a full time position’.<sup>6</sup>

Take casual working arrangements – while these may account for around 20 per cent of the stock of jobs at any point in time, this does not imply that the same 20 per cent of workers are ‘trapped’ in casual work. Many employees are only temporary occupants of casual positions as they transition to other forms of employment. Casual jobs suit many individuals – such as students and backpackers – at particular stages of their lives. Such individuals make a rational choice to trade-off paid leave and other benefits for a higher hourly rate of pay and the convenience of not being tied to a regular job. As the Productivity Commission

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<sup>3</sup> Laplagne P., Glover M., Fry T., *The Growth of Labour Hire Employment in Australia*, Productivity Commission Staff Working Paper, February 2005.

<sup>4</sup> *ibid.*

<sup>5</sup> Productivity Commission, *The Role of Non-Traditional Work in the Australian Labour Market*, research paper, 25 May 2005.

<sup>6</sup> Adecco Group, *Temporary Labour Report*, January 2012.

observed in its report titled the *Economic Structure and Performance of the Australian Retail Industry*:

... there will be some workers who do not want to work, for example, on Sundays or public holidays even with the added remuneration arising from the payment of penalty rates. But it should also be recognised that deregulation of trading hours provides those individuals who prefer to work outside of 'normal hours' with job opportunities they would not have otherwise. And for other workers there is the opportunity to earn additional income by receiving penalty rates for such work.<sup>7</sup>

Casual work in entry-level jobs can also provide a pathway to ongoing employment – a way of acquiring basic employability skills and proving oneself a reliable employee – particularly for young people and for people who experience disadvantage in the labour market.

Research undertaken for the Department of Education, Employment and Workplace Relations (DEEWR) by the Melbourne Institute<sup>8</sup> confirms that casual employment can often be a stepping stone to more 'secure' work. Transition rates from casual employment to non-casual employment are around 30 per cent after 12 months and 49 per cent after three years, and around 40 per cent of those transitioning from casual to non-casual employment do so with the same employer. Less than 16 per cent are still in casual employment after nine years.<sup>9</sup>

Provided it is lawful and freely entered into, contracting can also suit many skilled workers better than an ongoing employment arrangement. Independent contractors may achieve greater employment security by offering their services to a diversity of firms because this reduces their exposure to the risk of relying on the ongoing viability of any single firm. This is likely to be the case for a number of technical, professional and skilled trades workers in such areas as engineering, project management, ICT and building and construction, where work is 'project' driven.<sup>10</sup> For example, one BCA member company reported that not one employee had taken up an option to convert from casual or fixed-term status, supporting the conclusion that many individuals value flexibility and better pay over 'permanence'.<sup>10</sup> Similarly, Adecco has found that 'two thirds of temporary workers display high levels of job satisfaction', with 84 per cent reporting they would 'recommend temporary work'.<sup>11</sup>

Labour hire firms play an important role in helping to match people to jobs. Under labour hire arrangements, individual workers or contractors are engaged by the labour hire agency and

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<sup>7</sup> Productivity Commission, *Economic Structure and Performance of Australian Retail Industry*, Inquiry Report No. 56, November 2011, xxviii.

<sup>8</sup> Buddelmeyer H., Wooden M., & Ghantous S., *Transitions from Casual Employment in Australia*, Melbourne Institute of Applied Economic and Social Research, December 2006.

<sup>9</sup> Estimates supplied by Professor Mark Wooden, Melbourne Institute of Applied Economic and Social Research, based on nine waves of the Household and Labour Market Dynamics Australia (HILDA) longitudinal survey.

<sup>10</sup> Case study provided by a BCA member.

<sup>11</sup> Adecco Group, *Temporary Labour Report*, January 2012.

their services on-sold to third parties. The labour hire firm is the responsible employer and is under the same obligation as any other employer to comply with all relevant employment standards and award conditions.

Labour hire allows firms to control the amount of time for which certain labour is contracted. Research into the motivations for and outcomes of on-hiring arrangements in Australia shows that by far the most important reasons for firms using on-hired workers is to cover peak loads (30 per cent) or staff absences (17 per cent), outsource administration (11 per cent) or address temporary skill shortages (9 per cent). Cost considerations account for less than three per cent of employer motivations for use of labour hire arrangements.<sup>12</sup>

Labour hire reduces search and recruitment costs for both employers and employees. For individual employees who are seeking ongoing work, it reduces the risk of unemployment between assignments. Many people placed by labour hire firms are subsequently offered ongoing employment, having been able to use a temporary placement to demonstrate to a prospective employer that they are competent and reliable. Others may not be looking for a permanent job but choose to use labour hire firms so that they can exercise more control over when, where and for whom they will work.

When it comes to working hours that, while regular, are too long or too short, there are certainly a number of individuals who would like to work more hours than they are currently working. ABS estimates suggest that in the last quarter of 2011, just over seven per cent of the labour force either temporarily worked reduced hours due to economic reasons at their firm, or wanted to work more hours. When these are added to the numbers unemployed, around 12.5 per cent of the labour force was under-utilised at the end of 2011. We also know from other surveys, such as the longitudinal Household Income and Labour Dynamics Australia (HILDA) survey,<sup>13</sup> that there are some employees who would prefer to work fewer hours than they do. In a study to shed light on whether employees prefer more flexible hours than they currently experience, Drago, Wooden and Black<sup>14</sup> found, for example, that many mothers would like to work shorter hours after the birth of a child, but may have no choice but to leave the labour force altogether if part-time options are not available.

In a perfectly efficient labour market, such mismatches would be few and more people would be able to find the exact working arrangement to suit their preferences. Given that such a high degree of labour market efficiency is unlikely, some mismatch between actual and

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<sup>12</sup> Brennan L., Valos M., & Hindle K., *On-hired Workers in Australia: Motivations and Outcomes*, December 2003, p. 18.

<sup>13</sup> The HILDA survey provides a rich source of information on Australian labour market dynamics and the employment preferences and experiences of individuals in a range of different circumstances.

<sup>14</sup> Drago R., Wooden M., & Black D., 'Who Wants and Gets Flexibility? Changing Work Hours Preferences and Life Events' in *Industrial and Labor Relations Review*, Vol. 62, No. 3, Article 8, 2009.

preferred hours of work is inevitable. But this does not of itself amount to evidence of employment 'insecurity'.

Many individuals who enter freely into non-standard working arrangements are making rational choices about the sorts of arrangements that best suit their circumstances at the time. In doing so, they will have regard to the trade-offs between flexibility, pay, conditions and certainty. Flexibility is not the same as insecurity. As often as not it is an expressed preference of the individual employee for greater work–life balance. And with changing demographics it is likely that more people will be seeking greater flexibility in their working arrangements. Many do not wish to work full time or to be tied to an ongoing job. To maintain this outdated standard as the benchmark to which every worker should aspire is to overlook the generational changes that have already occurred in the Australian workforce.

When it comes to remuneration, it is likely that historical pay relativities and general market conditions, rather than the particular form of employment, will be the main determinants of pay and conditions at a given time. For example, during times of relatively low unemployment and excess demand for certain skills, contractors are likely to be able to negotiate higher rates of pay than traditional employees who are locked into multi-year agreements.

It is also claimed that workers on non-standard working arrangements are at greater risk of being denied access to financial services such as bank loans for housing or durable purchases. However, there is nothing new about the fact that a significant number of people in the workforce do not have standard working arrangements or an ongoing employment contract with a specific employer. While once it was difficult for anyone but a male breadwinner with a permanent job to secure a mortgage, banks are now accustomed to dealing with a much greater diversity of clients and with a range of non-standard working arrangements. Under federal law, all banks must comply with responsible lending requirements that require them to satisfy themselves that an applicant has a reasonable prospect of servicing a loan, regardless of source of income. Many people who are self-employed or operate as independent contractors have a regular and reliable income and are no less able to service a loan than someone in an employer–employee relationship. Accordingly, a rise in the number of independent contractors does not of itself imply any reduction in the number of people likely to be eligible for bank finance.

## **Conclusion**

The transformation of the Australian labour market in the past three decades has resulted in a more diverse range of working hours and arrangements to accommodate both changing business needs and the preferences of a more diversified workforce. This has helped Australia adjust to changing economic and social circumstances, making us more resilient to shocks, more able to respond to the challenges of increased global competition and providing a sounder foundation for future employment security for all Australians.

The ACTU suggests that 40 per cent of all workers today are engaged in insecure work arrangements such as casual, fixed-term, contracting or labour hire.

ABS data show that there were 3,575,300 employed on fixed-term, casual or independent contractor arrangements in November 2010. This represented 31.5 per cent of total employment in that month, or 39 per cent (near enough to 40 per cent) of all 'employees' if owner/managers are excluded from total employment.

The number of people engaged under these arrangements is a matter of fact and is not in dispute. What is disputed is the identification of these alternative working arrangements with employment insecurity. This greatly overstates the extent of true disadvantage in today's labour market.

The evolution of a more flexible range of working arrangements has been a response to a combination of contemporary business needs and the preferences of a more diversified workforce, and has contributed to – rather than detracted from – aggregate employment growth.

It will not add to overall employment security to restrict these forms of employment. And it will not help those who are genuinely insecure if the problems they face in gaining a secure foothold in employment are incorrectly diagnosed and inappropriately treated.

Let us therefore better define the extent and causes of labour market disadvantage and look to how best to overcome it. More regulation is unlikely to be the answer.

BUSINESS COUNCIL OF AUSTRALIA

42/120 COLLINS STREET MELBOURNE 3000 T 03 8664 2664 F 03 8664 2666 [www.bca.com.au](http://www.bca.com.au)

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