

## CHAPTER 4

# UNEMPLOYMENT AND THE CHANGING LABOUR MARKET

*...the lack of employment is the biggest single cause of poverty in Australia at the moment. It is a key area that needs to be looked at in any poverty inquiry.<sup>1</sup>*

4.1 Unemployment, particularly long-term unemployment, is the most significant cause of poverty and disadvantage in the Australian community.<sup>2</sup> In the immediate post-war years through to the mid-1970s, Australia, like most advanced Western countries, maintained very low levels of unemployment. Since the mid-1970s the achievement of full employment has progressively lost ground as a policy priority, with the consequence that large numbers of Australians have been denied this basic right to work. As a consequence, unemployment and underemployment have remained at unacceptably high levels for over two decades and this has led to major social and economic costs for the community.

4.2 Unemployment has serious economic, social and emotional impacts. Unemployment puts severe financial and emotional stresses on families and leads to a loss of self esteem and social status. These can lead to family conflict and separations; to psychological and physical health problem; to homelessness and to a range of disadvantages for children growing up in these families. The effects of unemployment, however, reverberate beyond the jobless – unemployment reduces economic output and national income and the wider community is adversely affected with further demands placed on governments via the social security system and on the charitable sector.

4.3 This chapter looks at the changing labour market over recent decades, the definitional issues around unemployment and underemployment, and the relationship between joblessness and poverty. The chapter then reviews various issues related to unemployment and the changing labour market and strategies to address problems in relation to these issues. These include:

- the creation of more jobs;
- role and effectiveness of the Job Network;
- the problem of the long-term unemployed;

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1 *Committee Hansard* 30.4.03, p.55 (BSL).

2 *Committee Hansard* 30.4.03, pp.55-56 (BSL); *Submission* 163, p.104 (ACOSS).

- the problem of the 'working poor';
- increased casualisation of the workforce; and
- the impact of recent industrial relations changes on wages and working conditions.

### **The changing labour market**

4.4 Over recent decades there have been significant changes in the nature of employment in Australia. Evidence to the inquiry indicated the following trends:

- Employment in business services, retailing, hospitality and health and community services has grown, while that in the manufacturing and utilities sectors has declined.
- The proportion of jobs which are part-time or casual has increased, as has the proportion of lower-paid jobs within the service sector. Casual employment increased by 68 per cent in the 1990s. Permanent jobs increased by only 5.3 per cent over the same period, but the number of full-time permanent jobs actually fell by about one per cent. By August 2002, 27.3 per cent of all wage and salary earner jobs were casual and 66 per cent of these were part-time.
- Unemployment rates have increased markedly since the 1970s as has the average duration of unemployment (see below).
- Significant changes in the skills mix of occupations occurred with increases in both low and higher skilled jobs and decreases in intermediate skill level jobs.
- Earnings inequality increased during the 1990s. In 1991, low paid adults employed full-time (10<sup>th</sup> percentile) earned 71.6 per cent of those in the middle of the earnings distribution (50<sup>th</sup> percentile) of full-time adult non-managerial employees; by 2002 the ratio had declined 4.1 percentage points to 67.5 per cent. The pattern of rising wage inequality was particularly pronounced in the male labour market.<sup>3</sup>

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3 *Submissions* 94, pp.2-6 (ACTU); 98, pp.10-11 (BSL); Preston A, 'The changing Australian labour market: developments during the last decade', *Australian Bulletin of Labour*, vol.27, no.3, September 2001, p.169; Department of Industry, Tourism & Resources, *Key Demographic and Labour Market Trends in Australia during the 1990s*, 2002, p.7; and recent ABS statistics.

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## Unemployment and underemployment

4.5 In January 2004, there were 574 100 unemployed people in Australia (582 700 in seasonally adjusted terms), with an unemployment rate of 5.6 per cent (5.7 per cent in seasonally adjusted terms).<sup>4</sup> The ABS defines an unemployed person as a person aged 15 years and over who was working less than one hour a week in the survey week, had been actively looking for work and was currently available for work.

4.6 As noted above, since the early 1970s unemployment rates have increased significantly – the August unemployment rate averaged 3.7 per cent during the 1970s, 7.3 per cent during the 1980s and 8.9 per cent during the 1990s. There has also been a very substantial increase in the average time spent unemployed. The average duration of unemployment increased from approximately 12 weeks in the 1970s to 41 weeks during the 1980s. Subsequently it rose to around one year during the 1990s. As a consequence of this trend, the rate of long-term unemployment – an indicator of the number of persons unemployed for more than one year – more than doubled between 1980 and 1998. In January 2004, the number of long-term unemployed equalled 1.2 per cent of the labour force, the number of long-term unemployed persons was equal to 21.4 per cent of all those unemployed, and more than half (52 per cent) of these people had been seeking work for over two years.<sup>5</sup>

4.7 The growth in unpaid overtime also contributes to unemployment, especially in the services sector. One submission noted that in 2001-02 unpaid overtime had overtaken the amount of hours all people who were registered as unemployed could have worked and as such if this overtime had been 'paid' it would have removed all unemployment. The submission noted that 'if there is any sign that industrial conditions have declined, then it is the amount of unpaid overtime. The [human] cost of this unpaid overtime cannot be overestimated'.<sup>6</sup>

4.8 The official unemployment rate alone, however, underestimates the total number of people wishing to work. An element of unemployment is 'hidden' – that is, individuals who have given up looking for work and/or jobs with suitable hours (also known as discouraged job seekers) and others with marginal attachment to the workforce (for example, students and care-givers). When hidden unemployment is taken into account the adjusted unemployment rate is significantly higher. In September 2002, while there were 628 500 people officially unemployed, there were an additional 672 100 workers who preferred to work more hours (of these, 244 800

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4 ABS, *Labour Force, Australia*, Cat. No. 6202.0.

5 Key Demographic Trends, pp.7-8; and recent ABS statistics.

6 *Submission* 158, p.43 (Disability Action). See also *Submission* 180, pp.5-6 (Tasmanian Poverty Coalition).

had actively looked for more hours and were available to work more hours) and 808 100 who were 'marginally attached to the labour force'.<sup>7</sup>

4.9 Official unemployment statistics thus significantly underestimate the actual level of unemployment, particularly among females. Over the last decade, hidden unemployment accounted for, on average, 16 per cent of total male unemployment (official plus hidden unemployment). For females, the share of hidden unemployment as a proportion of total unemployment was much higher, equal to an average of 36 per cent.<sup>8</sup>

4.10 ACOSS in a recent study noted that if hidden unemployment was included in ABS statistics, the unemployment rate would be double the official rate. In September 2002, ACOSS estimated there were 1 344 000 unemployed, including the hidden unemployed, corresponding to an unemployment rate of 12.9 per cent, compared to the official unemployment rate of 6.3 per cent. Some groups, especially mothers, mature age people, Indigenous Australians and people with disabilities have much higher than average rates of hidden unemployment.<sup>9</sup>

4.11 The Australia Institute argued that the labour market statistics need to incorporate information on how many hours people would prefer to work as well as how many hours they do work. By collecting data on these items it would be possible to measure the nature and extent of unemployment, underemployment and overwork simultaneously.<sup>10</sup>

4.12 In addition to hidden unemployment there is the issue of underemployment. Underemployment may be defined as a situation where individuals are employed, but their skills and productive ability are not being fully utilised. Examples include workers employed in jobs not commensurate with their skills and persons employed part-time but wishing to work more hours. Data for August 2003 indicate that one third of all male part-time employed persons would like to work more hours; the corresponding proportion for female part-time employed persons is 22.3 per cent. The Centre of Full Employment and Equity at the University of Newcastle (CofFEE) estimated that in August 2002, while the official unemployment rate was 5.9 per cent, the addition of hidden and underemployment increased the rate to 11.2 per cent.<sup>11</sup>

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7 ABS, *Labour Force, Australia*, Cat. No. 6291.0.55.001.

8 Preston, p.163.

9 ACOSS, *Hidden Unemployment in Australia*, November 2003, pp.7-9.

10 *Submission 68*, Attachment B (The Australia Institute); *Committee Hansard* 19.6.03, pp.646-47 (The Australia Institute).

11 *Submission 201*, p.21 (CofFEE).

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## Joblessness and poverty

4.13 Evidence to the inquiry indicated that a strong relationship exists between poverty and employment status. Smith Family data on poverty rates of all people aged 15 years and over by their labour force status reveal that only 4.6 per cent of Australians who hold a full time job live in a family that is in poverty, however, the poverty risk increases to 11.7 per cent among Australians aged 15 and over who are working part-time. More than half of all Australians who are unemployed live in a family that is poor.<sup>12</sup>

4.14 Professor Saunders of the Social Policy Research Centre, using a different data set, stated that the poverty rate for jobless families, that is, with no employed member, is almost seven times higher than the poverty rate among families with one employed person. Having two employed persons in the family causes a further reduction in the poverty rate.

4.15 Professor Saunders noted that there is a very large reduction in poverty associated with having someone in *full-time* employment. The poverty rate is lower when there is one full-time worker than when there are two workers in paid employment. This highlights the fact that it is not so much access to any form of employment that reduces the risk of poverty (although this does have a positive impact) – but that access to full-time employment is the crucial factor.<sup>13</sup>

4.16 Professor Saunders emphasised the importance of increasing the number of full-time jobs and suggested that:

Generating high employment growth should thus be a crucial component of any poverty alleviation strategy, but generating a growing number of full-time jobs is even more critical. These findings as to the significance of full-time employment for poverty reduction cast a warning given Australia's poor record of full-time job creation in recent decades. Although joblessness is clearly a major contributing factor to poverty among working-age families, it does not automatically follow that any form of employment growth will produce substantial inroads into the poverty population. Job creation is important, but creating full-time jobs is even more so.<sup>14</sup>

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12 Harding A, Lloyd R & Greenwell H, *Financial Disadvantage in Australia, 1990 to 2000*, The Smith Family, 2001, p.12.

13 *Submission 95*, p.32 (Professor Saunders); *Committee Hansard 27.5.03*, p.436 (Professor Saunders). See also *Committee Hansard 29.5.03*, p.553 (CoffEE).

14 *Submission 95*, p.32 (Professor Saunders).

4.17 One study noted that employment trends over the last decade reflected a decline in full-time employment:

- The growth of full-time employment continued to be low relative to the growth of part-time employment. Over the decade 1990-2000, 25 per cent of the employment growth occurred in full-time jobs while 75 per cent was in part-time jobs.
- Within the small increase of full-time jobs there was a striking movement away from permanent full-time employment towards casual employment. Over the decade the number of permanent full-time jobs fell by 51 000 but the number of full-time casual jobs increased by 333 000.
- The same movement towards casual employment among full-time employees was evident among part-time employees. Part-time permanent employment increased by 355 000 but part-time casual employment increased by 492 000. The labour market has overwhelmingly moved away from permanent to casual jobs.<sup>15</sup>

### **Creating more jobs**

4.18 Evidence to the Committee indicated the importance of stimulating adequate employment growth to address the problem of unemployment. The Brotherhood of St Laurence (BSL) stated that:

There are not enough jobs. There is currently only one job available in the economy for every six job seekers. No matter how good your labour market programs, if you are not addressing the lack of jobs, then you are never going to get huge results.<sup>16</sup>

4.19 In the period from the immediate post-war years to the mid 1970s Australia, like most advanced Western countries, maintained very low levels of unemployment. The era was marked by the willingness of governments to maintain levels of aggregate demand that would create enough jobs to meet the preferences of the labour force. Unemployment rates during this period were usually below 2 per cent.

4.20 Evidence indicated that the post-war commitment to full employment has now been replaced by a government commitment to 'full employability' only, that is, that unemployed people should be *able* to be employed, not that they *are* employed.<sup>17</sup> CoffEE argued that this policy is aimed at making people work-ready assisted

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15 Gregory RG, 'Its full-time jobs that matter', *Australian Journal of Labour Economics*, vol.5, no.2, June 2002, p.275.

16 *Committee Hansard* 30.4.03, p.56 (BSL).

17 *Submission* 98, p.10 (BSL).

through a range of government programs that vary in their effectiveness – 'but we are focusing on a diminished goal of full employability and we are forgetting that the major aim is to create a macroeconomic environment in which you have enough jobs and hours of work for those who want them'.<sup>18</sup>

4.21 Various proposals were advanced to increase the number of jobs. These included:

- making the achievement and maintenance of full employment a policy priority;
- developing targets for unemployment reduction, with an emphasis on the quality of new jobs generated;
- expanding employment in the public and community sectors in the areas of health, community services, education and environmental programs;
- formulating an industry development policy that links education and training, skill development, high productivity, and high quality, high wage employment; and
- developing an incomes policy to moderate wages growth, including high-income employees.<sup>19</sup>

### ***Full employment***

4.22 Many submissions argued that full employment should be a major goal of government. Unemployment represents a significant underutilisation of valuable human resources. In addition, high and persistent unemployment acts as a form of social exclusion. The costs of unemployment are significant and include not only income and output loss, but the deleterious effects on individual self-confidence and skill levels. Many unemployed people feel demoralised and socially isolated. The wider community is also adversely affected and there are increased burdens on the welfare sector and social security budgets.<sup>20</sup>

4.23 The Australian National Organisation of the Unemployed (ANOU) stated that full employment should be the centrepiece of national policy:

...[this] is founded upon our belief that every adult who wishes to engage in paid work should have the right to do so. This right cannot be fulfilled unless the work available meets the human need to obtain an income, to

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18 *Committee Hansard* 29.5.03, p.554 (CofFEE). See also *Submission* 201, pp.13-16 (CofFEE).

19 *Submissions* 163, p.114 (ACOSS); 98, p.viii (BSL).

20 *Submissions* 210, pp.13-14 (CofFEE); 28, p.2 (ANOU); 76, p.7 (Unemployed Persons Advocacy); 211, p.6 (Unemployed Workers Group -Townsville/Thuringowa).

contribute to society and to gain a status in the community through this contribution.<sup>21</sup>

4.24 The BSL also stated that 'there needs to be a commitment to full employment, which seems to have completely dropped off the agenda over the last 15 to 20 years. That comes a lot from an overly narrow economic focus and the desire to control inflation at all costs.'<sup>22</sup>

4.25 Some groups, however, cautioned that a definition of full employment needs to be relevant to contemporary circumstances. The Centre for Public Policy noted that:

...we would need to think about what we actually mean by full employment. Many people working part-time chose to work part-time – they are not working part-time in the sense that the Brotherhood suggested. They are not necessarily looking for additional hours; they are looking for that part-time option.<sup>23</sup>

### ***Job creation schemes***

4.26 Several submissions argued for the implementation of various job creation schemes to increase the total quantum of jobs available. The CofFEE has developed a comprehensive public sector job creation proposal. The proposal calls for the introduction of a Job Guarantee for all long-term unemployed people and a Youth Guarantee, which would provide opportunities for education, technical training and/or a place in the Job Guarantee program for all 15-19 year old unemployed people. Details of the proposal are provided below.

#### **Public sector job creation – A path to full employment**

The proposal for a Community Development Job Guarantee (CD-JG) has been developed by the Centre of Full Employment and Equity (CofFEE) and requires that two new employment initiatives be introduced. These are a Job Guarantee for all long-term unemployed (people who have been unemployed longer than 12 months) and a Youth Guarantee, comprising opportunities for education, technical training, and/or a place in the Job Guarantee program for all 15-19 year olds who are unemployed.

These initiatives would significantly augment the current labour market policies of the Federal Government.

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21 *Submission 28*, p.7 (ANOU).

22 *Committee Hansard 30.4.03*, p.58 (BSL). See also 30.4.03, p.58 (VCOSS).

23 *Committee Hansard 30.4.03*, p.59 (Centre for Public Policy).



Under this proposal, the Federal Government would maintain a 'buffer stock' of jobs that would be available to the targeted groups. The CD-JG would be funded by the Commonwealth but organised on the basis of local partnerships between a range of government and non-government organisations. Local governments would act as employers, and CD-JG workers would be paid the Federal minimum award. Any unemployed teenager (15-19 year old) who was not participating in education or training would receive a full-time or part-time job. Equally, all longterm unemployed persons would be entitled to immediate employment under this scheme. CD-JG positions could be taken on a part-time basis in combination with structured training.

The aim of the CD-JG proposal is to create a new order of public sector jobs that support community development and advance environmental sustainability. CDJG workers could participate in many community-based, socially beneficial activities that have intergenerational payoffs, including urban renewal projects, community and personal care, and environmental schemes such as reforestation, sand dune stabilisation, and river valley and erosion control. The work is worthwhile; much of it is labour intensive requiring little in the way of capital equipment and training; and will be of benefit to communities experiencing chronic unemployment. It is in this sense that the proposal represents a new paradigm in employment policy.

To implement the CD-JG Proposal at a national level would require an estimated net investment by the Commonwealth of \$3.27 billion per annum. The net investment required to employ all unemployed 15-19 year olds under the Youth Guarantee component of the proposal would be \$1.19 billion. On the other hand, \$1.96 billion is required to employ all long-term unemployed persons aged 20 and over. Clearly, the stronger is the private sector activity the lower this public investment becomes.

The creation of 265 300 CD-JG jobs would be required to eliminate youth unemployment and to provide jobs for people aged 20 years and over who are long-term unemployed. As a result, national output would rise by \$7.71 billion; private sector consumption would rise by \$2.38 billion; and an additional 68 900 jobs would be created in the private sector. The full implementation of the CD-JG proposal would thus yield an additional 334 200 jobs. The unemployment rate would fall to 4.0 per cent, after taking account of the labour market participation effects.

*Submission 201, pp.7-11 (CofFEE).*

4.27 CofFEE indicated to the Committee that its proposal had widespread local support in Newcastle from the business community, unions and community and welfare organisations. The Newcastle City Council also indicated its support for the proposal to be piloted in the local Hunter region. CofFEE stated that to implement the proposal in the Hunter would require net investment by the Commonwealth Government of \$120.4 million per annum.<sup>24</sup>

4.28 Evidence indicates that public sector job creation initiatives are an important element in labour market policies in many OECD countries. One submission noted

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24 *Committee Hansard 29.5.03, pp.558-59 (CofFEE); Submission 201, p.11 (CofFEE).*

that an OECD examination of the effectiveness of labour market programs concluded that direct creation of jobs through public service employment programs may be the only way to help many of the unskilled long-term unemployed. These job creation programs have become more effective over time as they have become more flexible, more targeted to local needs, and better linked to other labour market services.<sup>25</sup> An OECD study, however, concluded that direct job creation in the public sector shows that this approach has been of little success in helping unemployed people get permanent jobs in the open labour market. The study noted that as a result there has been a trend away from this type of intervention in the recent past, but it appears to be making a comeback now in some OECD countries, especially in Europe, usually as part of a 'reciprocal obligation' on the unemployed in return for continued receipt of benefits. However, OECD countries continue to spend large amounts on public sector job creation programs and the policy debate about the utility of this type of intervention continues.<sup>26</sup>

4.29 Other job creation proposals were also discussed during the inquiry. Australia @ Work informed the Committee of its co-operative venture that combines low cost housing initiatives and related job creation activities. The group pointed to its Bulahdelah Working Village project which seeks to support a small community of 30 families in the rural town of Bulahdelah. The project will facilitate 45 new jobs for co-op members.<sup>27</sup>

### ***Conclusion***

4.30 The Committee believes that the Commonwealth Government needs to be more pro-active in creating employment opportunities for Australians, especially in the creation of full-time jobs. Meaningful employment for the country's citizens is fundamental to their economic and social well-being, and also that of the nation.

4.31 Breaking down the barriers to employment must be a national priority. This requires a concerted effort on two fronts – increasing the total quantum of jobs by building on the foundations of strong economic growth, and improving the opportunities for disadvantaged people to get their fair share of secure and decent jobs (which is discussed later in this chapter).

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25 *Submission 201*, p.34 (CofFEE).

26 OECD, *Policies Towards Full Employment*, 2000, p.203.

27 *Submission 206*, pp.1-12 (Australia @ Work); *Committee Hansard 28.5.03*, pp.520-21 (Australia @ Work).

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## **Recommendation 1**

### **4.32 That the Commonwealth Government develop a national jobs strategy to:**

- **promote employment opportunities, particularly permanent full-time and permanent part-time jobs;**
- **set long-term targets for increased labour force participation;**
- **develop better targeted employment programs and job creation strategies;**
- **ensure a substantial investment is made in education, training and skill development; and**
- **bring a particular focus on improving assistance to young people making the transition from school to work, training or further education to prevent life-long disadvantage.**

## **Recommendation 2**

### **4.33 That the Commonwealth conduct a review into the dynamics of the labour force, especially in relation to skill shortages.**

## **Role and effectiveness of the Job Network**

4.34 The Job Network provides subsidised employment services to Australia's unemployed, especially targeted at the more disadvantaged jobseekers. The Job Network replaced the Commonwealth Employment Service in 1998. Most publicly subsidised employment services were contracted out to for-profit and not-for-profit agencies under purchaser-provider contracts determined by the Department of Employment and Workplace Relations (DEWR). The first contract (JN1) with these providers came into operation in May 1998, the second (JN2) in early 2000 and the latest three-year contract on 1 July 2003 (JN3). Centrelink was established as a Government operated gatekeeper to the system and as the single benefit payments agency.

### 4.35 The Job Network has three major functions:

- Job placement (or 'Job Matching' in the first and second contracts) – providers match and refer eligible jobseekers to suitable vacancies, notified by employers. Under JN3, the job placement function is not directly part of the Job Network as general recruitment agencies and others outside the existing Job Network will fulfil this role.
- Job Search Support – Job Network providers offer a job search training program to jobseekers unemployed for at least 3 months.
- Intensive Support ('Intensive Assistance' in the first and second contract) – this is the most personalised and intensive form of assistance offered by the

Job Network. The types of assistance provided includes work experience, vocational training, job search techniques and language and literacy training.

4.36 The major change in the new arrangements from July 2003 is that jobseekers will be allocated to a single Job Network provider for the life of their unemployment episode. They will automatically go through cycles of assistance of varying intensity as their unemployment spell increases. Where jobseekers are referred to complementary programs, such as Work for the Dole, Job Network providers will retain contact with them and ensure continuing job search activities. Jobseekers unemployed for 12 months, or those at very high risk of enduring unemployment, will receive more extensive assistance for a period of 6 months through the customised assistance component of Intensive Support. This can include job matching, training, job search assistance, work experience and post-placement support. Job Network providers will get access to a funding pool (the Job Seeker Account) to subsidise particular forms of assistance to jobseekers – these services include fares, counselling, wage assistance and training. Of the various functions, the intensive phase of assistance (customised assistance) is the most important as it is targeted at the most disadvantaged jobseekers.

4.37 JN3 implements an Active Participation Model of employment placement and jobsearch. Under this new system there is an emphasis on guaranteeing access to a 'continuum of service', with the nature of that service increasing over time if the individual is at high risk of unemployment. It aims to provide assistance that is better targeted and timelier.

4.38 In addition to paying commencement fees when job seekers start in the intensive phase of assistance (which has been changed to fee-for-service payments in JN3), the Government also rewards providers for outcomes. For example, under JN3, a provider will receive outcome payments of over \$6600 if it successfully gets a job that lasts at least 26 weeks for a job seeker who has been unemployed for 3 years or more. This will be supplemented by fee-for-service and Job Seeker Account payments for that job seeker of around \$4500 over the three years.<sup>28</sup>

4.39 With continued long-term unemployment, the role of labour market programs has become even more important, especially in enabling disadvantaged job seekers to become more competitive in the labour market and to get a foothold in paid work. Current programs are performing poorly in this respect.

4.40 Submissions argued that the long term unemployed and highly disadvantaged jobseekers have not been well served in terms of quality of assistance delivered and employment outcomes by the Job Network to date.<sup>29</sup> Some submissions noted,

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28 Productivity Commission, *Independent Review of the Job Network*, June 2002, pp.xxii-xxii; Parliamentary Library, *Job Network, the 3<sup>rd</sup> Contract*, August 2003, pp.1-4.

29 *Submissions* 98, pp.24-25 (BSL); 201, pp.22-23 (CoffEE).

however, that the reforms under JN3 may go some way to addressing these problems. Catholic Welfare Australia noted that the intensive support initiatives under JN3 recognises that providing more active support earlier in a person's experience of unemployment will have greater potential to reduce the person moving into long term unemployment.<sup>30</sup>

4.41 Studies indicate that the employment impact of Job Network programs for job seekers has been negligible. A DEWR evaluation concluded that Intensive Assistance provided only negligible benefits for job seekers, and the likelihood of being in employment three months after completion was increased by only 0.6 per cent.<sup>31</sup> The Productivity Commission review of the Job Network also found that, using a variety of assessment methods, the Job Network programs have to date had only a modest effect on job seekers' chances of gaining employment – 'this finding is consistent with evaluations of previous Australian and overseas labour market programs, and is in line with realistic expectations about their capacity to reduce aggregate unemployment'.<sup>32</sup> While under the Job Network, intensive services are supposedly targeted to more disadvantaged jobseekers, some groups have consistently lower employment outcomes, including older job seekers (aged 55-64 years), those on unemployment benefits for more than two years, job seekers with less than year 10 education, Indigenous job seekers and those with a disability.<sup>33</sup>

4.42 A major objective of the Job Network is to reduce the numbers of long-term unemployed. Several reports have highlighted the ineffectiveness of Job Network programs on outcomes for the long-term unemployed. One study noted that long-term unemployment statistics 'tracked the reduction in unemployment during the Working Nation period, but there is evidence of persistence in the period following the introduction of the Job Network, despite strong employment growth'.<sup>34</sup> The failure of this system to assist disadvantaged clients is clearly reflected in the increases in long-term unemployment.

4.43 Several studies have compared the Job Network with previous labour market programs. ACOSS stated that employment outcomes for long-term unemployed people under the Job Network are less favourable compared with the former Working Nation programs. Another study examined ABS data on unemployment levels for males, females and long-term unemployed youth and concluded that 'it appeared that

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30 *Submission* 148, p.22 (Catholic Welfare Australia), See also *Submission* 133, p.6 (UnitingCare Australia).

31 Cited in *Submission* 98, p.25 (BSL).

32 Productivity Commission, p.xxvii.

33 Productivity Commission, pp.5.6-5.9.

34 Cited in Productivity Commission, p.5.10.

these groups had not benefited as much as under Working Nation'.<sup>35</sup> While DEWR argued that the Job Network has produced outcomes which are broadly similar to those achieved under previous labour market programs, the Productivity Commission noted that labour market conditions at the time of Job Network have been more buoyant than during Working Nation.<sup>36</sup>

4.44 The BSL stated that the Job Network's previous funding model provided strong incentives to focus resources on people who are easy to place rather than those with greater barriers to employment. By focusing on immediate outcomes, it discouraged investment in quality services with the potential to address causes of labour market disadvantage.<sup>37</sup> Under the recent reforms Job Network services are more outcome focused and the payment system provides the greatest rewards to those providers who achieve long-term employment outcomes for their hardest to place clients.<sup>38</sup>

4.45 Evidence to the Committee suggested a decline in the quality of support provided, a move away from holistic assistance, and a reduced focus on the broader welfare and personal needs of jobseekers. The Productivity Commission's review found that many jobseekers under JN2 received little or no assistance while in Intensive Assistance – the highest assistance category in the Job Network. The Commission noted that 'when all the evidence is reviewed, including anecdotal information provided by job seekers and providers, it still appears that a significant number of job seekers do not get substantial assistance'.<sup>39</sup> This led to large numbers of jobseekers being 'parked' – registered with the provider but provided with no assistance – because the cost of removing barriers is too high relative to the outcome payment. The Commission noted that many providers often direct their services to jobseekers that are likely to be responsive and 'park' those with either insurmountable or high barriers to work. The former funding arrangements provided weaker financial incentives to provide assistance to those limited job prospects. The Commission argued that the Active Participation Model in JN3 is likely to reduce parking problems.<sup>40</sup>

4.46 The Productivity Commission noted that although Intensive Support under JN3 offers a higher level of interaction with job seekers, some job seekers with large barriers to employment may not get much direct assistance from the Job Network. The

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35 Cited in Productivity Commission, p.5.12.

36 Productivity Commission, p.5.12.

37 *Submission 98*, p.25 (BSL).

38 DEWR, *Employment Services: An Active Participation Model – Discussion Paper*, May 2002, p.3.

39 Productivity Commission, p.9.13.

40 Productivity Commission, pp.xxxii-xxxiii.

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Commission suggested that there may be grounds for providing more tailored and very intensive assistance outside the Job Network to a selective group of job seekers.<sup>41</sup>

4.47 A further concern raised in evidence, which may directly affect poverty levels of disadvantaged jobseekers, is the removal of any notion of job quality from the achievement of employment outcomes. For example, Job Network providers in the past received the same payment for placing a job seeker in a low skilled, low paying job with no prospects for development as for placing someone in a job offering good training, reasonable pay, and possibilities for career development.<sup>42</sup> The new funding arrangements under JN3 do address this problem to some extent with, for example, higher outcome payments payable to Job Network providers placing highly disadvantaged jobseekers.

4.48 Active labour market programs, which aim to improve the 'employability' of young people and long-term unemployed are only one part of an employment strategy – the other aspect of this strategy is the need to provide effective links between the unemployed and sustainable jobs.

### ***Conclusion***

4.49 The Committee notes the concerns expressed relating to the inadequacies of the Job Network in terms of quality of assistance delivered and employment outcomes for the long term unemployed and highly disadvantaged jobseekers. The Committee notes that changes introduced to Job Network arrangements in July 2003 may go some way to addressing the concerns expressed, especially in providing greater flexibility and individualised support services to jobseekers, but believes that further substantial changes to the Job Network are required.

4.50 The Committee also considers that further measures to address the structural failure of the labour market to create sufficient employment opportunities need to be implemented to complement the employment services provided through the Job Network.

### **Recommendation 3**

#### **4.51 That the Commonwealth Government:**

- introduce a training guarantee for long term unemployed or at risk jobseekers under the Job Network;**
- introduce quality controls in the form of case management provided to jobseekers;**

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41 Productivity Commission, p.9.29.

42 *Submission* 98, p.25 (BSL).

- provide automatic entitlement to case management for long-term unemployed people and unemployed youth;
- provide caps on the number of unemployed persons a case manager can assist within a job service environment to reduce the incentive to churn; and
- consider the feasibility of introducing a 'training and hiring' model (referred to in paragraph 4.65).

#### Recommendation 4

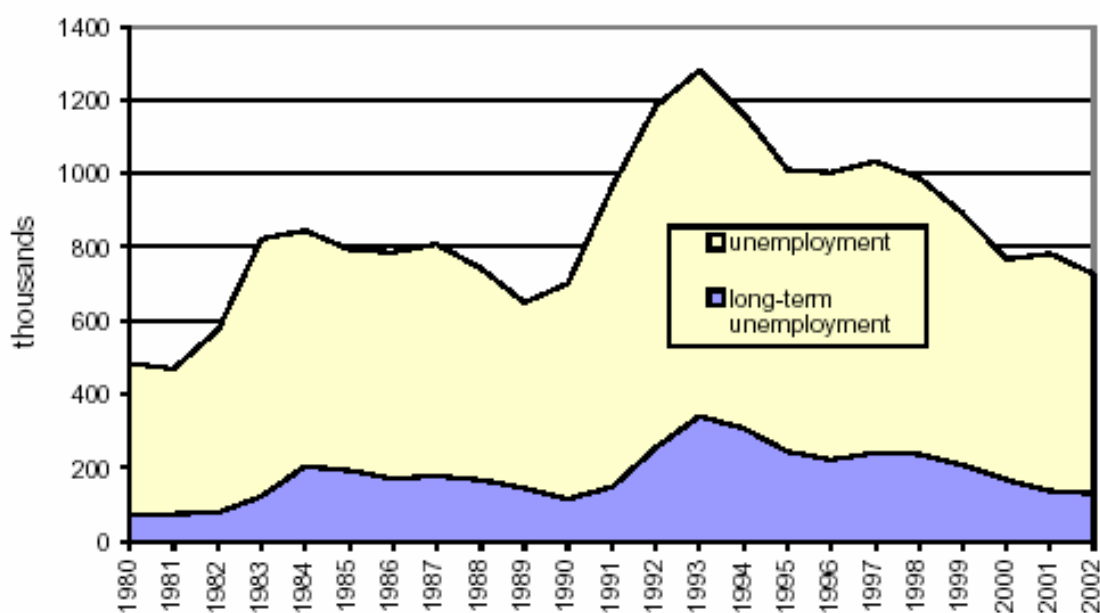
**4.52 That the Commonwealth Government introduce a range of measures, in addition to subsidised employment services, to address structural problems in the labour market.**

#### Long-term unemployed

4.53 One of the most disadvantaged groups in Australia is the long-term unemployed. Evidence to the Committee emphasised that effective employment assistance policies are vital in order to identify the barriers that are preventing their access to the labour market and to improve the job prospects of this particularly vulnerable group. In January 2004, there were 124 500 Australians who had been unemployed for 52 weeks or more, comprising 21.4 per cent of the total unemployed.

4.54 In Australia, unemployment rose substantially with recessions in each of the last three decades. Jobs growth was too weak to reduce it to previous levels in the ensuing recoveries. This and other factors led to a sharp increase in long-term unemployment as shown in Figure 4.1.

**Figure 4.1: Unemployment and long-term unemployment**



Source: Submission No.163, p.105 (ACOSS).



4.55 The length of time people are unemployed directly correlates with their likelihood of living in poverty. Some 79 per cent of people who have been unemployed for over a year live in poverty.<sup>43</sup>

4.56 ACOSS stated that in February 2003, out of 663,600 people registered for unemployment benefits with Centrelink, 394,500 people, or 59 per cent, had been registered for 12 months or longer. This compares with July 1991 when only 23 per cent of people were registered for over 12 months, indicating a large rise in the proportion of long-term unemployed over the last decade. Further, of those who have been out of work for at least a year, the majority have been unemployed for over two years.<sup>44</sup>

4.57 The long-term unemployed are much more likely than employed people or short-term unemployed people to have low education and skill levels, a chronic illness or disability, to live in a region of high unemployment, and to have an unstable employment history. Reducing long-term joblessness therefore requires a combination of strong jobs growth and labour market assistance and training policies to help these disadvantaged job-seekers to secure a reasonable share of the jobs created.

4.58 Reducing long-term unemployment is critical to achieving economic outcomes that are both efficient and equitable. In general, the longer a person is unemployed the greater the costs of each additional period of unemployment, both to the person and to society. Material hardship, and the physiological and psychological damage resulting from unemployment, are all likely to increase as the duration of unemployment grows.<sup>45</sup>

4.59 Persistent long-term unemployment has caused a large group of Australians to live under extended economic hardship. A high proportion of long-term unemployment among the unemployed indicates that the burden of unemployment is concentrated on a relatively small number of people, who often are at risk of permanent detachment from the labour market.

### ***Skill development and work experience***

4.60 Many submissions indicated that insufficient attention has been paid to education, training, and skill development for unemployed people. They argued that more training assistance should be provided for the long-term unemployed including the upgrading of numeracy and literacy skills, as well as general communication skills to enhance their employability. Catholic Welfare Australia proposed that cash payments should be provided (of \$1000 per year of study completed) for long-term

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43 *Submission* 163, p.105 (ACOSS).

44 *Submission* 163, p.105 (ACOSS).

45 *Submissions* 163, pp.105-6 (ACOSS); 201, p.25 (CofFEE).

unemployed jobseekers who undertake and complete a recognised course which will provide relevant skills.<sup>46</sup>

4.61 Submissions emphasised that effective employment assistance is critical to enabling people who are unemployed to move into work as early as possible. ACOSS and other groups argued that there is only limited assistance available to overcome barriers to work. As noted above, a revised model of employment assistance was introduced through the Job Network from July 2003. This provides, *inter alia*, for the provision of higher level assistance for people who have been unemployed for one to two years or who are identified as at very high risk of long-term unemployment. This includes provision of a Job Seeker Account whereby Job Network providers will be able to purchase or provide assistance for job seekers to address their barriers to employment.

4.62 Groups argued that in order to combat the labour market disadvantage facing the majority of long-term unemployed jobseekers, substantially more assistance is required. The BSL argued that while the Job Seeker Accounts may improve the situation, the amount provided for each jobseeker (up to \$1200) is still modest.<sup>47</sup>

4.63 Of particular concern to many is the lack of assistance for those who are the very long-term unemployed and who fail to get an outcome through customised assistance. After two attempts at Customised Assistance there is no further substantial assistance provided. A person who is unemployed for a very long time is so disadvantaged within the labour market that moving into sustained employment is unlikely without substantial intervention.<sup>48</sup> ACOSS argued that an Employment Assistance Guarantee should be introduced targeting long term unemployed or at risk jobseekers who have not got an outcome within three months of undertaking Customised Assistance. The Guarantee would provide incentives for Job Network providers to spend more on appropriate training and on wage subsidies, and provide job seekers with appropriate help that they need. The cost would be met in equal part by the provider and the Government.<sup>49</sup>

4.64 Another gap identified during the inquiry is the lack of effective programs to provide work experience for the long-term unemployed. Employers often prefer to appoint jobseekers with recent work history, and the longer someone is out of work, the more uncompetitive they become. Work experience can overcome this in part, and provide on-the-job training in work practices and expectations of employers. A serious

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46 *Submission* 148, p.24 (Catholic Welfare Australia).

47 *Submission* 98, p.25 (BSL).

48 *Submissions* 148, p.22 (Catholic Welfare Australia); 163, p.114 (ACOSS).

49 *Submission* 163, p.115 (ACOSS).

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strategy to reduce long-term unemployment must provide for greater opportunities for paid work experience.<sup>50</sup>

4.65 ACOSS suggested that a transitional jobs scheme could be introduced, whereby people who have been unemployed for over two years would be provided with six months employment at a training wage, and with significant wage subsidies, in the not-for-profit and public sectors. Wage subsidies would be primarily funded through direct savings on income support.<sup>51</sup> The BSL suggested another option could be based on the Swedish 'training and hiring' model which provides public subsidies to employers who temporarily release low-skilled workers to upgrade their qualifications as long as they are replaced by an unemployed person.<sup>52</sup>

### **Recommendation 5**

**4.66 That a transitional jobs scheme for the very long term unemployed be introduced, whereby people who have been unemployed for over two years would be provided with six months employment at a training wage in the not-for-profit and public sectors.**

4.67 Submissions also argued that targeted policies to reduce the cost to employers of employing long-term unemployed and disadvantaged jobseekers, for example, by way of direct subsidies, tax exemptions or rebates need to be developed. These need to operate over a reasonably long timeframe, as employers tend not to respond to short-term incentives.<sup>53</sup>

### **The working poor**

4.68 Until relatively recently to be in paid work but poor used to be a contradiction in Australia. In the 1970s, the Henderson poverty inquiry found that less than two per cent of families with an adult in full-time employment could be described as poor. Rather, poverty was mainly a problem for those who could not get waged work. Since the 1990s, however, having employment is no longer a guarantee of staying out of poverty. The phenomenon of the 'working poor' refers to the situation where households fall below a defined poverty line even when family members are in paid employment.

4.69 ACOSS stated that some 365,000 Australians were living in 'working poor' households in 2000. These are families and single people whose main source of income is wages and salaries but whose incomes are below the poverty line, using the

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50 *Submission* 135, p.8 (Salvation Army).

51 *Submission* 163, p.115 (ACOSS).

52 *Submission* 98, p.26 (BSL).

53 *Submissions* 98, p.viii (BSL); 135, p.8 (Salvation Army).

before-housing half average income poverty line. Although this represented just 3.2 per cent of people living in such wage-earning households, it represented 15 per cent of all people living in poor households.<sup>54</sup>

4.70 Worsening wage inequality is a major contributor to the widening social divisions in society. This problem has been exacerbated by the increasing numbers of people unable to secure full time permanent work and forced to take casual and part time jobs.<sup>55</sup> A Smith Family study showed that the risk of poverty for those working either full-time or part-time increased slightly over the decade 1990-2000. While 10.7 per cent of all Australians working part-time were in poverty in 1990, by 2000 this had increased to 11.7 per cent. For wage and salary earning families there was a marginal increase in the risk of being in poverty in all four earnings category (namely, one part-time earner, one full-time earner, two earners – at least one part time – and two full-time or three earners) over the corresponding decade.<sup>56</sup> Another study commissioned by the Smith Family found that one in five poor Australians live in a family where wages and salaries are the main source of income.<sup>57</sup>

4.71 The demographic characteristics of low-paid workers show that women, workers with no post-secondary educational qualifications and younger workers are overrepresented in this group. One study found that whereas 45 per cent of all wage and salary earners are women, they make up 54 percent of low paid workers. Almost half (46 per cent) of low paid employees are persons who had left school before completing secondary school. Also, younger adults, those aged under 30 years, have a higher representation in the low paid group than older workers. As to geographical location, workers living in rural areas and small urban centres were more likely to be in low paid jobs. Persons born in a non-English speaking country also have a slightly higher likelihood of being in low paid employment.<sup>58</sup>

4.72 Severely limited opportunities are often part of the life experiences of low wage working poor individuals and their families. A lack of financial resources often has adverse flow-on effects for workers and their families. A lack of money can led to reduced access to preventive health and other services; reduced educational opportunities for their children and a disincentive for them to participate in post-secondary education; and a reduced ability to participate in social activities and in the

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54 ACOSS, *Submission to the AIRC National Wage Case*, March 2003, p.3.

55 *Submission 163*, p.115 (ACOSS).

56 Harding, Lloyd & Greenwell, pp.13-14.

57 Harding A & Szukalska A, *Financial Disadvantage in Australia – 1999*, The Smith Family, 2000, p.9.

58 Dunlop Y, 'Low-paid employment in the Australian labour market, 1995-97' in Borland J *et. al.* eds., *Work Rich, Work Poor*, Centre for Strategic Economic Studies, 2001, pp.99-100.

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wider society generally. Lack of financial resources also reduces a worker's asset base with more likelihood that their financial difficulties will persist into old age.

4.73 A study by Eardley examined the growth of the 'working poverty' in Australia from the 1980s to the mid 1990s using ABS survey data.<sup>59</sup> Although there are many different measures of low pay in the literature, the most widely used approach is to define an hourly earnings threshold level which reflects the level of remuneration for work undertaken in a job. A person earning under this cut off is deemed to be working for low pay. The study defines 'low pay' as two-thirds of the median hourly rate for all waged workers. The measure included both men and women, and full-and part-time employees.

4.74 The study found that the phenomenon of working poverty in Australia is an increasing problem with the proportion of low-paid workers who are also in poor families increasing to about one in five in 1995-96. Only part of this is due to the increasing prevalence of involuntary part-time and casual work. In 1981-82, one in ten low-paid adult employees lived in poverty, as defined by the Henderson poverty line – this had increased to one in five by the mid-1990s. The growth in poverty among those in full-year, full-time work appears to have risen significantly, with a particular increase among single person households. While the unemployed as a group are still more likely to live in poor families than even low paid employees, employment seems to be becoming a much less effective safeguard against poverty than in the past.

4.75 The current system of enterprise bargaining severely disadvantages low-paid workers. The Australian Liquor, Hospitality and Miscellaneous Workers Union (LHMU) stated that bargaining at the enterprise level is most suited where workers are employed in large enterprises providing long-term employment in fixed locations. This does not exist in many service establishments which are characterised by indirect employment relations, the dispersal of workers in the same industry across many establishments, and high rates of casualisation and turnover. In addition, subcontracting makes enterprise bargaining difficult because the employer for whom workers perform their labour is not the direct employer with whom workers are legally able to bargain.<sup>60</sup>

### ***Life for the low paid***

4.76 The Committee received a substantial amount of evidence during the inquiry from many individuals in low wage employment. The personal experiences of these people provided a very valuable insight for the Committee about the difficulties faced

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59 Eardley T, 'Working but Poor? Low Pay and Poverty in Australia', SPRC Discussion Paper No. 91, November 1998, pp.21-35. See also Eardley T, 'Low Pay and Family Poverty', *Family Matters*, No 51, Spring/Summer 1998, pp.29-32.

60 *Submission* 120, pp.11-13 (LHMU).

in making ends meet and providing for themselves and their families. Some of these individual case studies are provided in the box below.<sup>61</sup>

4.77 This evidence of these people indicated that for low paid employees:

- finances are always tight;
- expenditure is modest and overwhelmingly on necessities (food, clothing, housing and utilities); and
- there is an ever present financial stress, which requires the low paid to carry a level of debt in order to make ends meet and to go without things and activities associated with full and active participation in society.

### **The working poor – doing it tough**

**Ms McScheffrey** – I am 31 years of age. I am in a de facto relationship, with three children under 10. I currently work at the Flinders Medical Centre Community Child Care Centre as a child-care worker and I have been there for 10 years. I am also an LHMU member. I work on a casual rate because I choose to, as I will get more money per hour, \$15.35 an hour doing 24 hours a week, and I forgo my sick leave and holiday pay as I am better off getting the extra hourly rate.

We used to get a health care card. We no longer do, because my partner's and my combined income is \$50 over the limit. Due to not having a health care card, we get no help with school fees and have to pay the full doctors fees, as there is no bulk-billing in my area. The family payment system does not seem to support families where both parents are part-time or casual. We have inadvertently incurred family allowance debts because we have to estimate our future incomes, and quite often have had to pay back. A number of times we could have been eligible for parenting payment but have not bothered to fill out the forms because it is too much hassle to fill them out and it is only for one or two fortnights. The next fortnight you are not eligible for it. You get knocked off. You have to go back and fill the forms out again.

My life could be worse, but when I see people like CEOs and managers earning so much money, obviously the money is there for us to be paid better so that I could afford to take my children on holidays, to go to the movies et cetera and to do household repairs, and maybe to run two cars. I would like the committee to look into the reasons why, if the money is there to pay CEOs and managers such large amounts of money, low-wage earners cannot have a better lot.

*Committee Hansard 29.4.03, p.5 (Ms McScheffrey).*

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61 See also *Submission 94, ACTU, Minimum Wages Case 2003: ACTU Witness Statements*, 5 February 2003, tabled at hearing 30.4.03.

**Ms Parajo** – I work at the Sheraton on the Park, and I am a LHMU delegate there. I have worked at the hotel for almost nine years. My job is in the uniform and/or valet attendant area. I receive approximately \$306 per week after tax. I work approximately 21 hours a week. I have five dependent children between the ages of two and 13. I am a single parent, unfortunately. I would like to work more hours a week, but I cannot manage due to my parenting responsibilities. In any case, I try to work every second weekend just to get extra money from the penalty rates to help pay the bills. I am sorry, but I am a bit upset. I cannot remember the last time I was able to take a break or to have a holiday.

I find it very difficult to manage my basic costs such as clothes, health, transport and education. The living wage pay rise I receive is so small. It is a bit of help, but it needs to be bigger to make any real difference. What can the committee do to make sure that in any future pay increase I receive real help? I have been forced to take unpaid leave for the birth of my children. This has forced our family into financial hardship. What can the committee do to make sure that working families do not continue to suffer when children arrive? Can you ensure that paid maternity leave becomes a right for all workers, especially the low paid, especially us? We are working for peanuts.

*Committee Hansard 26.5.03, p.318 (Ms Parajo).*

**Mrs Dewar** – I work in the bar and in food preparation at the Queensland Turf Club and the Brisbane Lions Club at the Gabba. I enjoy the customers and the social interaction in hospitality. I am a casual worker. I used to work two shifts at the Queensland Turf Club, a mid-week shift and a Saturday shift. I had worked at the turf club for seven years and I had had these shifts for two years when the manager took me off the mid-week shift. This left me with only one shift at the turf club and one shift at the Brisbane Lions Club. I now take home \$160 a week. I also receive some money from Centrelink. Losing a shift is a lot to someone who is on their own and relying on this money. You do not have any choices when you are casual. You do not want to cause trouble. Managers can make decisions based on personality instead of on work ethic, and they do this all the time. I am an honest and hard worker. It is not because of my work that I lost this shift; it is because of favouritism and personalities.

I am on my own...I am 54 years of age, and I would like to retire by the time I am 60. It is difficult to be on your feet all day. I feel like I have done the hard work in life, but I have no option but to stick it out.

I manage on the income that I get. I put away anything extra that I can. I am currently paying off my house, but it is getting hard because everything is going up. It is getting harder to manage day to day. I cannot afford a car, and it takes me 1½ hours to get from Green Meadows to Ascot because I need to get a few buses. I also cannot afford to go on holidays. Casuals in hospitality have no security. We want to be treated fairly. I would like to ask: what can the government do to make sure that we can keep our shifts and that we have as much security as other people?

*Committee Hansard 4.8.03, p.1143 (Mrs Dewar).*

4.78 The ACTU commissioned a study, based on HES data, on the financial stress experienced by households whose principal source of income is employee income. The study provides empirical evidence of the financial struggle experienced by

'working poor' households. The data for the first quintile households is provided below.

### **The working poor – survey of financial stress**

- When asked about the management of household income the majority of households – 58.5 per cent or 477,477 households – responded that they just managed to break even most weeks while a further 17.9 per cent (146,100 households) said they spend more money than they get. That is, more than three quarters of the first quintile households are just breaking even or are spending in excess of their income.
- When asked to compare their standard of living with two years ago, 69.2 per cent or 564,810 households said it was worse (27 per cent) or the same (42.2 per cent). Only 27.3 per cent felt their present standard of living better than 2 years ago.
- 34.9 per cent or 284,854 households said the reason they had not had a holiday away from home for at least one week per year was that they could not afford to.
- 29.9 per cent or 244,044 households indicated that they had experienced cash flow problems in the past year.
- When asked if they could raise \$2,000 in an emergency 26.0 per cent or 212,212 households reported that they could not.
- 22.0 per cent or 179,564 households said they could not afford to have a night out once a fortnight.
- 20.4 per cent or 166,505 households reported having not paid utilities bills due to shortage of money, and 10.3 per cent responded that they had not paid registration or insurance bills on time due to shortage of money.
- 14.6 per cent or 119,165 households said they could not afford a special meal once a week.
- 14.2 per cent or 115,900 households said the reason some members of the household bought second hand clothes is that they couldn't afford to buy new ones. The same proportion – 14.1 per cent said they had sought financial help from friends or family due to shortage of money.
- 11.5 per cent or 93,863 households said that the reason members didn't spend time on leisure or a hobby activity is that they couldn't afford to.
- When asked about the main source of emergency money 17.7 per cent or 144,467 households responded that they would need to rely on a loan from family or friends. A further 15.6 per cent would need to rely on a loan from a bank/building society/credit union, and 9.2 per cent a loan on a credit card.

*Submission 94, pp.12-14 (ACTU).*

4.79 The evidence indicates that for low paid, low income working families life is a struggle involving significant levels of financial stress and disadvantage. It also shows a lack of capacity to participate socially in activities enjoyed by others.



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### *Addressing the problem of low pay*

4.80 The Australian Liquor, Hospitality and Miscellaneous Workers Union (LHMU) argued that the low-wage labour market has emerged through the intersection of two processes, namely:

- the precarious organisation of much service work, with short and inadequate hours, casual work, 'casualised' part-time work, short job tenure, contracting and undervalued, insecure employment; and
- the restructuring of the industrial framework to benefit enterprise and 'individual' bargaining over industry standards, with a diminished 'safety net' of low wages.<sup>62</sup>

4.81 The LHMU added that the low-paid labour market is characterised by the interlocking dynamics of low pay – low hourly rates of pay and fragmented work experiences that provide inadequate, insecure levels of employment. In the low-paid labour market, many workers who may receive reasonable hourly rates of pay are nonetheless unable to secure adequate weekly or yearly work to constitute a liveable wage. The union noted that the consequences of an entrenched low-paid labour market 'go beyond employment. These consequences include poverty, inequality and disadvantage'.<sup>63</sup>

4.82 As discussed in chapter 3, poverty is increasingly associated with low pay. The LHMU stated that, in fact, the low-paid and the jobless poor are often the same people at different stages in their lives, 'churning' through a series of poorly paid jobs and spells of unemployment. In addition, thousands of poor individuals, including children, rely on the precarious incomes of low-paid workers.<sup>64</sup>

4.83 During the inquiry a number of options were suggested to address the problem of low paid workers. These issues are discussed below.

#### *Raising minimum wages*

4.84 A number of organisations, including the LHMU, argued that there was a need to raise minimum wages for low paid workers. The union argued that:

Achieving fair wages in our society in part depends on our ability to raise wages at the bottom of the labour market. We must ensure that low-paid workers enjoy the gains of the labour market as a whole.<sup>65</sup>

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62 *Submission 120*, pp.i, 6-16 (LHMU); *Committee Hansard 26.5.03*, pp.315-17 (LHMU).

63 *Submission 120*, p.ii (LHMU).

64 *Submission 120*, pp.ii, 19-20 (LHMU).

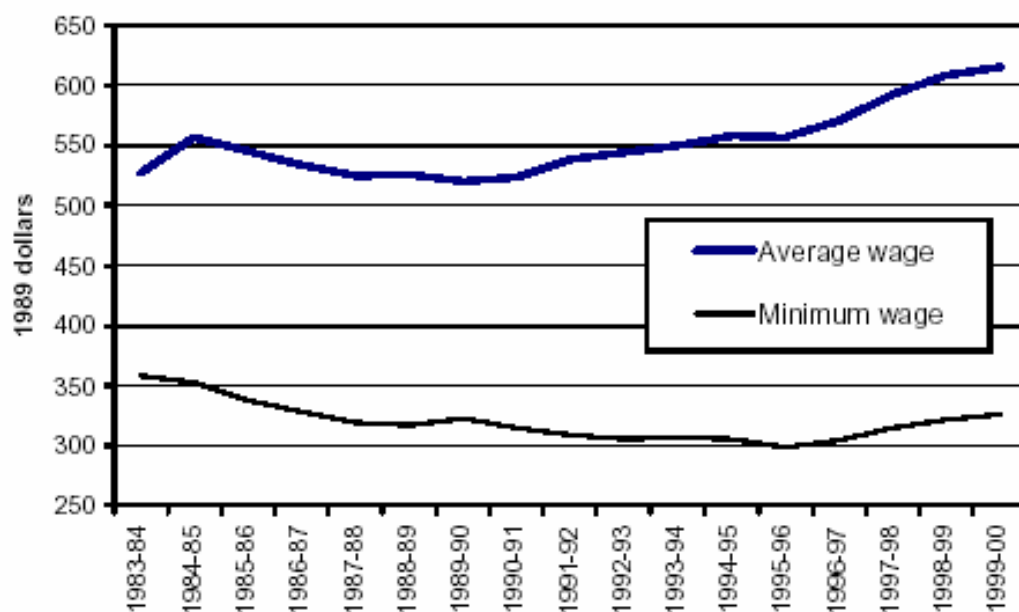
65 *Submission 120*, p.26 (LHMU).

4.85 In order to raise minimum wages the LHMU argued that it would be necessary to establish an adequate income benchmark. The LHMU pointed to research conducted by the Social Policy Research Centre which calculated a 'modest but adequate' benchmark for a range of household types to achieve an adequate standard of living relative to contemporary community standards. Australia has not had a minimum wage calculated on an analysis of household budgets since the Basic Wage, derived from the original *Harvester* judgement, was abandoned in 1967.<sup>66</sup>

4.86 ACOSS argued that the Australian Industrial Relations Commission should establish a new minimum wage benchmark based on a wage level that enables a single full-time worker to live in 'modest comfort' and to participate in contemporary society. This should be set well above the poverty income level for a single adult.<sup>67</sup>

4.87 Minimum full-time wages have fallen well behind average wages over the last 20 years, especially in the early years of the shift towards enterprise bargaining, before the present round of 'Living wage' cases was instituted in 1996. The minimum wage has now fallen to just 50 per cent of average earnings, a reduction of 15 per cent since 1983.<sup>68</sup>

**Figure 4.2: Real average and minimum wages – 1983-1999**



Source: Submission 163, p.117 (ACOSS).

66 Submission 120, p.26 (LHMU).

67 Submission 163, p.118 (ACOSS).

68 Submission 163, pp.117-18 (ACOSS).

4.88 The ACTU also stated that there has been an ongoing decline in the relative value of the Federal minimum wage over the course of the last decade, and particularly since 1996. The ACTU added that:

...the minimum rates adjustment process...concluded some time round the early nineties, depending on which awards and classifications you are talking about. Since that time, there has been an ongoing decline. An indicator of that is that the federal minimum wage is now, for the first time, worth less than half of average earnings. It has dropped to 49.9 per cent of average earnings.<sup>69</sup>

4.89 There is continuing debate over whether higher minimum wages lead to higher unemployment. The empirical evidence as to whether low paid workers are priced out of the labour market due to higher minimum wages is equivocal. An OECD study concluded that higher minimum wages are not a major cost on jobs, at least in the case of adults but they do seem to have more of an impact on youth employment. Other studies have reported that there is no clear evidence either way that higher minimum wages affect employment levels.<sup>70</sup>

## **Recommendation 6**

**4.90 That the Australian Industrial Relations Commission establish a new minimum wage benchmark based on a wage level that enables a single full-time worker to achieve an adequate standard of living relative to contemporary community standards.**

4.91 The Committee believes that the establishment of a new minimum wage benchmark is the foundation of a strong award system. It is essential that a new benchmark be established on top of which relativities/margins are calculated.

4.92 The LHMU also argued that once a fair benchmark for minimum wages is established, the wages of the lowest paid workers should be linked with wages growth in the rest of the labour market. In addition, the LHMU argued that there should be a new commitment to restrain the excessive wages of the highest paid executives and managers – 'it is unjust that only the wages of the lowest-paid workers are subject to community scrutiny and wage restraint'.<sup>71</sup>

### *Tax credits*

4.93 Some submissions argued for the introduction of tax credits to address the issue of low wage work. Catholic Welfare Australia pointed to the UK Working Families

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69 *Committee Hansard* 30.4.03, p.99 (ACTU). See also *Committee Hansard* 26.5.03, p.319 (LHMU); 29.4.03, p.9 (LHMU - SA).

70 Eardley study, p.33; *Submission* 120, p.26 (LHMU).

71 *Submission* 120, p.28 (LHMU).

Tax Credit Scheme (WFTC) and the US Earned Income Tax Credit (EITC) Scheme as possible models that could be adapted to Australian conditions. The EITC and WFTC provide tax refunds to low income families that derive their income primarily from wages, rather than welfare. As household income increases from employment, the tax credit is reduced. Catholic Welfare Australia argued that tax credit schemes would reduce the effect of high effective marginal tax rates on low income households.<sup>72</sup>

4.94 The BSL noted that while tax credit schemes have some merit, they have significant limitations. The BSL submitted that:

An EITC would effectively mean that government replaced regulation with business welfare as a means of protecting low-paid workers. It would also provide a subsidy regardless of employers' capacity to pay better wages, and possibly result in a longer term effect on employer expectations, with government seen to have primary responsibility for the adequacy of workers' incomes.<sup>73</sup>

4.95 The LHMU was opposed to the use of targeted tax credits to raise the incomes of low-paid workers, arguing that 'such measures respond to the failure of the industrial system to produce adequate incomes by shifting the responsibility for pay from firms to the government'.<sup>74</sup> The union argued that tax credits contribute to the expansion and entrenchment of the low-wage labour market – 'the answer is not to ask the social security system to accommodate the failure of the industrial framework to deliver fair pay, but rather to reimagine how we can provide decent work with fair wages and adequate, secure employment'.<sup>75</sup> The LHMU argued that a system of tax credits entrenches low-paid work by artificially suppressing wages – employers no longer have to provide a liveable wage to attract potential employees, because the government makes up the difference in the pay rates.

4.96 The Committee does not favour the introduction of tax credits to address the issue of low paid employment. Such measures provide a subsidy to low-wage employers and are likely to expand the pool of low-wage jobs. It is essential that low paid workers not become entrenched in a low-wage labour market. The Committee considers that it is the role of the industrial relations system to ensure an adequate wage for employees and not shift the responsibility to government. As noted above, the Committee favours an approach that will raise minimum wages. Pay rates are, however, only one of the dynamics driving low pay. Issues surrounding the precariousness of work that many low-paid employees face also need to be addressed.

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72 *Submission* 148, pp.18-20 (Catholic Welfare Australia) and Supplementary Information, 10.10.03, pp.1-9; *Committee Hansard* 20.6.03, pp.714-716 (Catholic Welfare Australia).

73 *Submission* 98, p.14 (BSL).

74 *Submission* 120, p.25 (LHMU).

75 *Submission* 120, p.24 (LHMU).

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*Precariousness of work*

4.97 The LHMU and other unions argued that mechanisms need to be developed to address the precariousness of work for those in low paid occupations to ensure adequate, secure employment conditions. Concerns raised included:

- the increase in short hour jobs;
- increased casualisation;
- wages and conditions in the personal services sector; and
- the problems of contract labour.

4.98 The LHMU argued that action needed to be taken to address the problem of the proliferation of short hour jobs. The union stated that thousands of its members and other low-paid service employees work short hours due to the organisational structure of particular industries. The LHMU stated that:

At present, employers can offer workers short and variable hours without redress. They can choose to employ any proportion of their staff as casuals and without any job security, without certainty of hours and therefore pay, and without leave entitlements.<sup>76</sup>

4.99 The LHMU told the Committee that it is addressing the issue of short hour jobs by seeking to increase minimum starts. The union added that:

One of the ways we can do that in the area of award regulation is minimum starts. At the moment in the cleaning industry, for example, most of the awards provide for a two-hour minimum start; that is to say the shortest period that you can actually work is two hours. In our view that is inadequate...So we are campaigning around increasing those minimum starts.<sup>77</sup>

4.100 The LHMU argued that working conditions in these industries must include a workable floor on the minimum hours which workers are offered by employers.

4.101 Submissions also argued that there needs to be greater employment security through reduced casualisation. The LHMU noted that at present employers can transform secure, permanent employment into casual work with almost no redress. Some 30 per cent of working Australians are casuals and in some industries, such as the hospitality sector, the proportion is double this figure – 'limiting casualisation must

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76 *Submission* 120, p.29 (LHMU). See also *Committee Hansard* 30.4.03, p.109 (SDA); 28.7.03, p.1045 (LHMU).

77 *Committee Hansard* 26.5.03, p.322 (LHMU).

be a priority within any effort to provide decent work in this country'.<sup>78</sup> This issue is discussed later in the chapter.

4.102 In addition, the LHMU argued that it was important to ensure that employers who receive Government funding to deliver personal services, such as in the aged care sector, pay adequate wages in order to reduce staff turnover and provide for continuity of care. The union argued that at present, both public and non-profit providers can use Government funds to employ care workers in sub-standard conditions. The union suggested that there was a need to attach wage and condition standards to public funds used for care and support work.<sup>79</sup>

### ***Conclusion***

4.103 The evidence received during the inquiry has raised a number of important and complex issues relating to low paid employment. The Committee believes that the issues raised warrant an inquiry by the Commonwealth Government to fully address the concerns raised. The Committee notes that the LHMU argued that there was a need for an inquiry into the question of low pay – 'and that is something that we intend to address over the next couple of months in the lead up to the ACTU congress and the next [national wage] case'.<sup>80</sup> Catholic Welfare Australia also called for an inquiry into low-paid employment.<sup>81</sup>

### **Recommendation 7**

**4.104 That the Commonwealth Government conduct an inquiry into low-paid employment and that this inquiry examine:**

- **the nature and extent of low-paid employment in Australia;**
- **the introduction of a workable floor in relation to the minimum hours of work offered by employers;**
- **the problem of casualisation and employment security;**
- **the feasibility of attaching standards in relation to wages and conditions to Government funding of services; and**
- **the wages and conditions pertaining to contract labour.**

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78 *Submission 120*, p.30 (LHMU). See also *Committee Hansard 28.7.03*, p.1045 (LHMU); 26.5.03, p.302 (AMWU).

79 *Submission 120*, pp.29-30 (LHMU).

80 *Committee Hansard 26.5.03*, p.317 (LHMU).

81 *Submission 148*, p.27 (Catholic Welfare Australia).

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## Casualisation

4.105 Evidence to the inquiry, as noted previously, commented on the trend towards increasing 'casualisation' of the workforce and the use of 'labour-hire' employees and the adverse implications these developments are having on the pay and working conditions of workers.<sup>82</sup>

4.106 There has been a marked increase in casual employment, especially over the last decade. Between August 1988 and 2002 total employment of casual workers in Australia increased by 87.4 per cent (141.6 per cent for men and 56.8 per cent for women). By August 2002 casual workers comprised 27.3 per cent of all employees, an increase of 7 percentage points since August 1991.<sup>83</sup>

4.107 This form of employment has been most often associated with teenage and female labour markets, however, the increase in casual employment during the 1990s was due to the rapid growth in this form of employment among all types of workers, especially among males and young adults. While levels of casualisation increased for all age groups they have been most pronounced for younger workers aged 15 to 24 years.<sup>84</sup>

4.108 There is no standard number of working hours that defines a casual worker. Consequently, casual workers can be employed on either a full-time or part-time basis. Casual employment is most prevalent in the part-time labour market, accounting for 73.6 per cent of all male part-time jobs and 55.3 per cent of all female part-time jobs. By August 2002, casual part-time employment as a proportion of total employment was equal to 18 per cent. Permanent full-time employment accounted for 61 per cent of total employment – 6.9 percentage points lower than the corresponding share in 1994.<sup>85</sup>

4.109 The main difference, at common law, between a permanent and a casual worker is that a permanent employee has an ongoing contract of employment of unspecified duration while a casual employee does not. The main characteristics of casual employment that flow from this are:

- limited entitlements to benefits generally associated with continuity of employment such as annual leave and sick leave; and

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82 *Committee Hansard* 26.5.03, pp.302-303 (AMWU); 2.7.03, pp.957-60 (LHMU).

83 ABS, *Employee Earnings, Benefits and Trade Union Membership*, Cat. No. 6310.0. The ABS defines 'casual employment' as employment without paid sick or holiday leave entitlements.

84 Watson I, *et.al.*, *Fragmented Futures: New Challenges in Working Life*, Federation Press, 2003, p.67.

85 ABS, *Employee Earnings, Benefits and Trade Union Membership*, Cat.No. No.6310.0.

- no entitlement to prior notification of retrenchment (no security of employment) and only a limited case for compensation or reinstatement.<sup>86</sup>

4.110 Most casual workers are concentrated in a few occupations, and these tend to be relatively low skilled – the retail trade, hospitality, property and business services, and health and community services. Other industries, such as manufacturing, construction and education also have sizeable concentrations of casual workers.

4.111 Casual employees do not necessarily have only a short term employment relationship with their employer – many remain with their employer for a considerable length of time. ABS data for 2001 indicate that 54.4 per cent of casual employees had been in their jobs for a year or more.<sup>87</sup>

4.112 Evidence commented on the insecure and irregular nature of this type of employment and its lack of 'job quality'. Submissions and other evidence indicated that, in comparison with permanent workers, casual workers:

- have less job security;
- are less likely to have set hours on a weekly, fortnightly or monthly basis;
- have less say in start and finishing times;
- work less hours per week;
- are more likely to be on-call or stand-by;
- are less likely to be covered by workers compensation insurance;
- have very low rates of union membership;
- are less likely to receive training, particularly formal training;
- are more likely to be paid by a labour hire firm;
- earn considerably less than permanent employees;
- contain a large proportion of workers wanting more hours or set hours;
- are likely to have no guarantee for the number of hours they work; and
- are more likely to have variable earnings.<sup>88</sup>

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86 Parliamentary Library, *Casual Employment*, August 1999, p.1.

87 ABS, *Forms of Employment*, Cat. No 6359.0. See also *Fragmented Futures*, p.69.

88 *Submission 156*, p.7 (AMWU); *Committee Hansard 26.5.03*, pp.302-303 (AMWU); 2.7.03, 30.4.03, p.101 (ACTU); pp.957, 960 (LHMU); 30.4.03, p.54 (Jesuit Social Services).



4.113 Evidence highlighted the 'poverty dimension' of casual employment, noting that these jobs are most often low paid. The ACTU noted that 'most casual jobs are part time. Most part-time jobs are casual. There is obviously a proportion in either case that are not... [however]...most casual jobs are low paid...It is unlikely that there are many people out there who really want to work in a low-paid job with a low number of hours'.<sup>89</sup> The ACTU further submitted that:

You cannot think it [casualisation] is a good thing if you are a student and have to work three or four casual jobs to survive through TAFE or university. You cannot think it is a good thing if the only jobs you can get are casual and do not pay enough to feed your family and pay the rent.<sup>90</sup>

4.114 The LHMU stated that 'workers want real jobs with some certainty of hours to provide an income they can live on without the need to rely on the welfare system'.<sup>91</sup> The BSL noted that while casual work may enable some unemployed people to gain work experience and gain full-time work, the reality for many casual workers is a series of short-term casual jobs interspersed with periods of unemployment – a trend that appears to be growing.<sup>92</sup>

4.115 The growth in the casual workforce is due to a number of factors. Some workers are attracted because of the loading that is sometimes offered in lieu of paid leave and other entitlements. For other employees it allows flexibility by, for example, allowing people to combine paid work with family responsibilities, study or other interests. Alternatively, it offers a means to 'ease out' of the labour force if nearing retirement; or to supplement family income. One study noted, however, that it is the preference of employers, not workers, which has driven the trend towards increasing casualisation.

The growth of casual employment has had little to do with increased turbulence in the labour market, or rising worker preferences for this form of employment. The driving force has been the changing employer strategies for utilising labour. Under the impact of increased competition in their product markets, employers have increasingly sought greater flexibility in hiring and deploying labour than prevailed in the era of labour "hoarding". In some cases, engaging workers through non-standard forms of employment has allowed employers to minimise their obligations to their workers, but more often it has been the pursuit of cost savings which has shaped their decisions.<sup>93</sup>

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89 *Committee Hansard* 30.4.03, p.102 (ACTU).

90 *Committee Hansard* 30.4.03, p.101 (ACTU).

91 *Committee Hansard* 2.7.03, p.957 (LHMU).

92 *Submission* 98, pp. 10-11 (BSL).

93 *Fragmented Futures*, p.69.

4.116 The Australian Manufacturing Workers' Union (AMWU) also argued that casual work is less likely to be regulated than continuous employment thus making it more attractive for employers to hire staff on a temporary basis. Temporary contracts are less costly (non-wage benefits do not always apply and dismissal can be achieved without severance payments) and they allow firms to exercise much greater flexibility in hiring and firing staff.<sup>94</sup> The union emphasised that the:

Increase in casualisation and labour hire arrangements are not about peaks and troughs, they are not about quality management: they are about cheap labour and exploitation, and it is becoming the norm.<sup>95</sup>

4.117 Evidence indicates that casual work is *not* the preferred work outcome for many workers. ABS data for 2000 on the preferred working patterns of 'self-identified' casual workers revealed that only one in five (22.8 per cent) want to work on a casual basis. Some 67.8 per cent indicated a preference for 'predictable patterns of work'.<sup>96</sup> Other ABS data for 2001 found that just over one-third (35 per cent) of part-time employees preferred to work more hours. The preference to work more hours increased to 43 per cent for part-time self-identified casuals.<sup>97</sup> While for some people, such as young people in education and women with family responsibilities, casual work may be preferred, for others, such as the previously unemployed, older males seeking full-time work and those with limited training and work experience, casual work is often the only alternative available to unemployment when no permanent jobs are available.<sup>98</sup> Even for younger workers a perceived 'preference' for casual work is often argued mainly on the basis that a casual job is better than no job at all.<sup>99</sup>

4.118 A number of developments since 2000 have seen some improvement in the employment conditions of casual workers. These include:

- a number of unions have won an award right for casual workers to convert to permanent employment after a specified period of employment, subject to various conditions. The qualifying periods vary and include 6 months in the case of the *Metal Industry Award* and 12 months in the *Hotels Award*.
- the ACTU achieved unpaid parental leave for regular casuals with 12 months employment.

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94 *Submission* 156, p.9 (AMWU).

95 *Committee Hansard* 6.5.03, p.303 (AMWU).

96 Cited in *Fragmented Futures*, p.67.

97 ABS, *Forms of Employment*, Cat. No.6359.0. See also *Submission* 94, Supplementary Information, 1.5.03 (ACTU).

98 Parliamentary Library, p.3; *Submission* 156, p.8 (AMWU).

99 *Submission* 156, p.8 (AMWU).

- the AMWU achieved three hour minimum engagement for part time workers and a four hour minimum engagement for casuals in the *Metal Industry Award*, and an increase in the casual loading from 20 to 25 per cent.<sup>100</sup>

4.119 Evidence indicated the need for further improvements in the employment conditions of casual workers. The ACTU argued that, in relation to casual and part-time workers, a maximum engagement period should apply and a right to convert to permanent employment. These workers should also have access to leave entitlements; minimum and maximum hours of work; and improved loadings.<sup>101</sup>

4.120 The BSL also argued that legislation should be introduced to ensure equal rights to standard entitlements, such as annual leave, sick leave, maternity leave, long service leave and superannuation, regardless of employment status; and the portability of entitlements should be improved.<sup>102</sup>

### ***Conclusion***

4.121 The Committee believes that the employment conditions for casual workers need to be substantially improved. To this end the Committee considers that the *Workplace Relations Act 1996* should be amended to provide definitions of 'full-time' and 'permanent part-time' work. This would enable casual workers to convert to permanent part-time work and ensure that they have access to entitlements such as holiday leave and sick leave. Evidence to the Committee indicated that many casual workers would like to convert to permanent part-time work but are currently prevented from doing so. The amendment to the Workplace Relations Act would allow the Industrial Relations Commission to make awards which would allow casuals to do that. The Committee envisages that these changes would not affect genuine seasonal casual workers but is intended to apply only to those casual workers who have regular patterns of part-time work. It is also envisaged that while casuals converting to permanent part-time work would be eligible for sick leave and holiday pay they would not be entitled to the casual wage loading.

### **Recommendation 8**

**4.122 That the *Workplace Relations Act 1996* be amended to provide definitions of 'full-time' and 'permanent part-time' work.**

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100 [www.actu.asn.au](http://www.actu.asn.au)

101 [www.actu.asn.au](http://www.actu.asn.au)

102 *Submission 98*, p.viii (BSL).

## Recommendation 9

### **4.123 That the Commonwealth legislate to guarantee the right to standard entitlements, such as annual leave and sick leave, for casual workers converting to permanent part-time work.**

#### **Labour-hire**

4.124 The increase in casualisation of the workforce has been mirrored by the increase of 'labour-hire' employees, especially over the last decade. The ABS estimated that in November 2001 (the latest statistics available) there were 161 800 who were 'paid by an employment agency/labour-hire firm'.<sup>103</sup> Only a small minority of these workers have any entitlement to paid sick leave or paid annual leave. Over three quarters of these workers are casuals. About 6 per cent of all casual workers are organised through labour hire arrangements.<sup>104</sup> The AMWU noted that labour hire workers now represent 19 per cent of the manufacturing industry workforce – 'that is nearly one in five manufacturing workers having no employment relationship with the person directing their work'.<sup>105</sup>

4.125 An increasing number of firms are using labour-hire workers. In 1990 the proportion of workplaces making use of these workers was 14 per cent – by 1995 this had increased to 21 per cent. The use of labour-hire employment is growing most rapidly in large workplaces. In workplaces with 500 or more employees, the proportion of agency workers grew from 16 per cent to 55 per cent between 1990 and 1995, an increase of 39 per percentage points. In smaller workplaces, of under 500 employees, the numbers increased from 14 per cent to 42 per cent, an increase of 28 per percentage points. The labour-hire approach is also becoming more widespread across many sectors of the economy. Traditionally, temporary employment agencies have been concentrated in the clerical labour market, whereas today they are found in sectors as diverse as metal and engineering, fruit picking, nursing and routine clerical work (not simply overflow clerical work).<sup>106</sup>

4.126 The growth of labour-hire is posing increasing problems in the areas of labour law and industrial relations, especially arising out of the nature of labour-hire arrangements – particularly the fact that workers are paid by one employer but work for another – 'confusion over lines of responsibility in exercising the employer role are

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103 ABS, *Forms of Employment*, Cat. No.6359.0. Another ABS survey, *Employment Services*, Cat. No.8558.0 estimated that there were 290 115 labour hire employees in 2001-02 (this survey counts jobs so would have double counted any persons employed by more than one labour hire company, whereas the former survey counts persons).

104 *Fragmented Futures*, p.73. See also *Submission 156*, pp.9-10 (AMWU).

105 *Committee Hansard* 26.5.03, p.302 (AMWU).

106 *Fragmented Futures*, pp.73-74.

evident, with serious consequences for worker conditions and entitlements'.<sup>107</sup> These workers lack any effective bargaining power over wages and conditions.

4.127 The growth of labour-hire arrangements has also led to a decline in wages and working conditions. The AMWU noted that labour-hire workers engaged as casuals by a labour hire agency or providing 'contract services' to the agency have employment conditions characterised by 'insecurity, precariousness, no career path, low or below award pay and substandard conditions'.<sup>108</sup> The union noted that:

Labour hire is proliferating, not as a short-term solution to meet seasonal demands and flexibility of requirements, but as an alternative to the employer/employee relationship, around which our award safety net of minimum wages and conditions is structured...As the level of precariousness attached to a job increases, there is a proportional decline in job quality and reward. Research and experiences of casual labour hire workers have identified the features attached to casual work. These traits, combined with employer practice, combine to drive down wages and conditions.<sup>109</sup>

4.128 The union argued that examples of the exploitation of labour-hire workers abound. The union cited the case of a large optical lens manufacturer in NSW.

This company employs more than 70 staff, of whom just 11 were permanent employees...most of the labour hire employees had worked for the company for at least 12 months. Many had worked there for more than 2 years. These workers are highly skilled yet as labour hire employees, they were forced to forgo holidays, sick leave and other normal arrangements that apply to workers... [the workers] were paid substantially less than the permanent workers and worked longer hours.<sup>110</sup>

4.129 The AMWU argued that labour-hire workers should be entitled to the same rights and conditions enjoyed by other workers – 'the families of labour hire workers have the same rights to financial security as the families of other workers'.<sup>111</sup> The ACTU also argued that labour-hire workers should have the right to receive the same pay and conditions as directly employed workers in an enterprise and there is a need

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107 *Fragmented Futures*, p.72.

108 *Submission 156*, p.10 (AMWU). See also *Committee Hansard* 4.8.03, p.1149 (LHMU-Queensland Branch).

109 *Committee Hansard* 26.5.03, pp.302-03 (AMWU).

110 *Submission 156*, p.10 (AMWU).

111 *Submission 156*, p.10 (AMWU).

for legislative change to protect the employment conditions and job security of these workers.<sup>112</sup>

4.130 The LHMU argued that there was a need to compel employers who contract out labour services to be legally responsible for the wages, conditions, and entitlements of contract workers. At present, employers can contract out responsibility for the wages and conditions of workers such as cleaners and security guards who perform work at their establishments.

4.131 The LHMU stated that:

...in recent times there has been more of a tendency of those companies [in cleaning, security etc.] to try to use variations on employment structures to avoid awards, whether they be subcontracting arrangements, franchising or whatever...it is part of the general problem of the more precarious employment and there have not been the mechanisms, particularly within the commission, to regulate those changes in employment relationships.<sup>113</sup>

4.132 The AMWU stated that casual workers, and in particular casuals sourced through labour hire, are more likely than permanent workers:

- to be paid at the minimum award rate rather than the enterprise rate paid to permanent workers;
- to be paid at the lowest classification or skill level even though they are equally qualified and perform work of equal value alongside permanent employees paid at the appropriate higher paid classification;
- are denied access to training and advancement through skill based award classification structures;
- are denied opportunities to increase their earnings through overtime as permanent workers are given preference; and
- are less likely to receive appropriate allowances.<sup>114</sup>

## **Recommendation 10**

**4.133 That the Commonwealth legislate to guarantee the right to standard entitlements, such as annual leave and sick leave, for labour hire workers.**

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112 [www.actu.asn.au](http://www.actu.asn.au)

113 *Committee Hansard* 26.5.03, p.320 (LHMU). See also *Submission* 156, pp.9-11 (AMWU).

114 *Committee Hansard* 26.5.03, p.303 (AMWU).

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## Changing industrial relations environment

4.134 Evidence to the inquiry commented on the impact of changing industrial conditions on the availability, quality and reward for work in Australia.

4.135 Australian labour market and industrial relations policy is shaped predominantly at the federal level. The centrepiece of the Government's industrial relations policy is the *Workplace Relations Act 1996*, which was intended to reduce the role of tribunals and unions in the bargaining process, and subject labour to market forces in determining wages and conditions.

4.136 Submissions and other evidence to the inquiry noted the negative impact of the Workplace Relations Act, including:

- growing inequality between those covered by enterprise or individual bargaining versus those reliant on awards;
- narrowed award coverage, with a failure to provide adequate basic protection for casual and award-free employees, dependent contractors and other workers in non-standard employment;
- failure to legislate for minimum conditions of employment for all employees;
- an award system that is becoming increasingly irrelevant and outdated as a consequence of the AIRC being limited to awarding minimum safety net adjustments targeted at the low paid;
- an inadequate range of collective bargaining arrangements available to employers and employees to meet specific circumstances;
- a bargaining process that is unnecessarily adversarial and where parties are unable to receive assistance from the AIRC when negotiations break down; and
- a severely restricted AIRC, with limited powers to set fair and reasonable wages and conditions.<sup>115</sup>

4.137 The BSL stated that deregulation within the context of decentralised bargaining has focused not so much on reducing the level of regulation, as on changing the way in which the labour market is regulated. The aim has been to remove regulations that provide external protection for employees, in favour of systems of internal regulation which promote bargaining between employer and employee directly, leading to a shift in the balance of power to management. There has been a continuing decline in the

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115 *Submissions* 129, p.14 (Queensland Government); 150, pp.10-15 (TWU); 156, pp.11-13 (AMWU).

numbers covered by the award system, which now includes less than 25 per cent of employees, compared with 68 per cent ten years ago.<sup>116</sup>

4.138 The LHMU stated that:

The current industrial framework limits the gains in wages and conditions that can be made through the award system, and instead encourages workers to engage in enterprise or "individual" bargaining. The framework encourages bargaining irrespective of the specificity of work and the levels of bargaining power that accompany different forms of work organisation.<sup>117</sup>

4.139 Similarly, the AMWU argued that:

The Government's response to increasing precariousness and insecurity amongst Australian workers has been to minimise the effectiveness of Industrial Awards, promote enterprise and individual agreement making and seek to limit union activities. The promotion of enterprise bargaining occurs in a policy vacuum devoid of recognition of the issues faced by precarious workers.<sup>118</sup>

4.140 The major effect of this changed industrial relations environment has been the redistribution of the benefits of work. Submissions noted that the main beneficiaries have been business, through increasing profit margins from improvements in productivity, and upper income earners with the market power to negotiate favourable conditions. Low skilled, part-time and casual employees have become increasingly vulnerable to low wages and inferior employment-related conditions, such as lack of access to leave entitlements. A study of minimum pay rates in Victoria during the Kennett era highlighted the adverse effects of deregulating the industrial relations system. The findings showed that, compared to workplaces under federal jurisdiction those workplaces which were subject to the old State industrial relations system had more unequal minimum pay rates and lower employment benefits. The study suggested that labour market deregulation contributes to earnings inequality and that it also weakens the situation of workers who are already structurally disadvantaged in the labour market.<sup>119</sup>

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116 *Submission 98*, pp.12-13 (BSL). See also Watts M, 'Wages and wage determination in 2001', *Journal of Industrial Relations*, vol.44, no. 2, June 2002, pp.228-44.

117 *Submission 120*, p.11 (LHMU).

118 *Submission 156*, p.11 (AMWU). See also *Committee Hansard 26.5.03*, pp.305-06 (AMWU).

119 The group subject to the State industrial relations system were termed 'Schedule 1A' workers – they were subject to a very minimalist form of protective regulation, prescribed in a set of legislative minimum conditions and by the internal regulations operating within enterprises. See Watson I, 'Kennett's industrial relations legacy: impact of deregulation on minimum pay rates in Victoria', *Journal of Industrial Relations*, vol.43, no.3, September 2001, pp.294-306.



4.141 There is evidence that wage dispersion has increased significantly since the take-up of enterprise bargaining. The ACTU noted that over the period from 1990 to 2000, while there were dramatic real increases in weekly earnings for managers and administrators (41.5 per cent over the period), a range of occupational categories, including clerical, sales and service workers suffered real earnings declines over the same period.<sup>120</sup> One study noted that earnings inequality is particularly marked within the male labour market. By 1998, low paid male adults earned 62 per cent of male adult median earnings, a fall of 5 percentage points since 1991.<sup>121</sup>

4.142 Submissions noted that for workers who are already in vulnerable labour market circumstances, the impact of labour market deregulation is likely to compound their disadvantage.<sup>122</sup> One study noted that:

For those groups in the labour force whom market forces have always treated favourably, the impact of "deregulation" was minimal....On the other hand, in those industries which have traditionally exposed workers to more adverse conditions and paid lower wages – such as agriculture and hospitality – [these] workplaces paid very low minimum rates and provided very little in the way of benefits...The critics of labour market "deregulation" have always contended that those who are industrially weak will be the main victims of any changes which weaken external regulation and this study...appears to confirm those fears.<sup>123</sup>

4.143 The picture that emerges is of an economy leaving behind the low-skilled and less talented jobseekers, resulting in greater polarisation of income and employment outcomes. Australia is moving towards a core/periphery labour market model with a large group of the workforce permanently excluded from, or only marginally attached, to the labour force and at high risk of experiencing financial hardship. The legislative changes that have occurred since the early 1990s appear to have directly contributed to this situation.<sup>124</sup>

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120 *Submission 94*, p.9 and *Committee Hansard 30.4.03*, p.96 (ACTU); *Submission 98*, p.13 (BSL).

121 Preston, p.174.

122 *Submissions 150*, pp.10-11 (TWU); *156*, pp.11-12 (AMWU).

123 Watson, p.306.

124 *Submissions 98*, p.13 (BSL); *50*, pp.4-7 (SDA).

