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The Role of Non-Traditional Work in the Australian Labour Market

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The Productivity Commission

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Foreword

There is continuing debate in Australia about the effects of labour market changes on the wellbeing of workers and their families. One such change has been the growth of various forms of employment collectively referred to as 'non-traditional' or 'non-standard'.

The Productivity Commission has conducted research into each of these forms of employment (Murtough and Waite 2000a, 2000b; Waite and Will 2001, 2002; Laplagne, Glover and Fry 2005). This Commission Research Paper builds on and extends that earlier work. In particular, it uses the most recent data from the important Household, Income and Labour Dynamics in Australia (HILDA) survey to provide a more complete perspective over time.

The Commission finds that, contrary to conventional wisdom, the growth of non-traditional employment in recent years has been in step with that of the workforce in general. Drawing on the HILDA survey, this study also demonstrates the diversity of circumstances of those in such jobs and the dangers of making generalisations about their job satisfaction or wellbeing.

The Commission is grateful to those who provided assistance in the preparation of this study and welcomes further feedback on it.

Gary Banks
Chairman

May 2006

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This paper uses a confidentialised unit record file from the Household, Income and Labour Dynamics in Australia (HILDA) survey. The HILDA Project was initiated and is funded by the Commonwealth Department of Family, Community Services and Indigenous Affairs (FaCSIA) and is managed by the Melbourne Institute of Applied Economic and Social Research (MIAESR). The findings and views reported in this paper, however, are those of the Productivity Commission and should not be attributed to either FaCSIA or the MIAESR.

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Abbreviations

ABS	Australian Bureau of Statistics
ACCI	Australian Chamber of Commerce and Industry
ACIRRT	Australian Centre for Industrial Relations Research and Training
ACTU	Australian Council of Trade Unions
ATO	Australian Tax Office
DEST	Department of Education, Science and Training
DEWR	Department of Employment and Workplace Relations
DIIRD	Department of Innovation, Industry and Regional Development
DLM	Dual Labour Market (Theory)
ESS	Employment Services Survey
FOES	Forms of Employment Survey
HILDA	Household, Income and Labour Dynamics in Australia (survey)
ICA	Independent Contractors of Australia
IRV	Industrial Relations Victoria
LFS	Labour Force Survey
NESB	Non-English speaking background
NILF	Not in the labour force
NTW	Non-traditional work
NTWs	Non-traditional workers
OECD	Organisation for Economic Co-operation and Development
OMIE	Owner manager of an incorporated enterprise
PAYE	Pay-as-you-earn
PC	Productivity Commission

Glossary

Casual employee	An employee (other than an owner-manager of an incorporated enterprise) who self-identifies as having a casual contract of employment.
Churning	Repeated transitions between different states of employment or employment and non-employment.
Cycling	See 'churning'.
Dependent contractor	A person employed on a commercial contract basis, but with work arrangements consistent with those of an employee.
Destination	The arrival labour market state following a transition.
Employee	A person who works in someone else's business for a wage or salary, excluding unpaid family workers.
Employer	A person who manages a business (incorporated or unincorporated) in which one or more other persons are employed. The employer may or may not also own the business.
Fixed-term employee	An employee whose contract of employment has a set duration or event.
Form of employment	The general form of the contract of employment between a firm and the person providing labour services to it. For example, ongoing employee or self-employed contractor.
Incorporated enterprise	An enterprise that is registered as a legal entity separate from its owners.
Independent contractor	A self-employed contractor who is usually not dependent on a single client for business.

Labour hire contractor	A self-employed contractor who uses a labour hire agency as a means of obtaining work. Also known as an 'Odco contractor'.
Labour hire employee	An employee of a labour hire agency, who works at the work site of a client firm, usually for a short period.
Odco contractor	See 'labour hire contractor'.
Ongoing employee	Person engaged for an indefinite period of employment, who is not a labour hire employee. Sometimes referred to as a 'permanent' employee.
Own account worker	A person who operates his or her own unincorporated business or engages independently in a profession or trade and hires no employees.
Owner manager	A person who works in his or her own incorporated or unincorporated enterprise.
Pathway	The successive forms of employment used by employed persons who change their form of employment at least once during the period of analysis.
Permanent casual	A self-identified casual whose earnings do not vary (excluding overtime) and who has an implicit contract for ongoing employment.
Prevalence	One group's proportion of a second, larger group. For example, the proportion of casual employees in the employee population.
Prime working age	Persons aged 25 to 54.
Self-employed	An employed person who operates his or her own business without employees and supplies labour services on an explicit or implicit commercial contract basis.
Self-employed contractor	A person who provides his or her own labour services by way of a commercial contract.
Self-identified casual	See 'casual employee'.

Stepping stone effect	The hypothesis that non-traditional work can facilitate the transition to ongoing employment of people who are unemployed or not in the labour force.
Transition	A movement from one labour market state or form of employment to another, with or without a change of employer.
True casual	A self-identified casual who does not meet the definition of a permanent casual.
Unincorporated enterprise	A business entity in which the owner and the business are legally inseparable, so that the owner is liable for any business debts incurred.
Work arrangement	A condition, entitlement or characteristic of work, such as hours worked and time off work in lieu of overtime.
Worker	Any person, including contractors, who provides his or her labour in return for remuneration.

OVERVIEW

Key points

- Around 3.3 million people were engaged in 'non-traditional' work in 2004, representing approximately one third of all employed people. Overall, this number had grown since 1998, but non-traditional work's share of the total workforce remained largely unchanged.
  - Casual employment is the largest non-traditional form of employment (1.9 million in 2004 or 20 per cent of all employed persons). Growth was rapid between 1998 and 2001, but has slowed since, resulting in a stable share of the employed population.
  - Self-employed contractors (0.8 million in 2004), fixed-term employees (0.6 million) and labour hire employees (0.3 million) are less common forms of non-traditional work. Their total number grew between 1998 and 2001, but has subsequently levelled off. Their combined share of the total workforce fell between 2001 and 2004.
- There are significant differences between non-traditional workers:
  - Some, like fixed-term employees, closely resemble ongoing employees in many respects, such as education and skills. Casuals, by contrast, are typically less skilled.
  - Fixed-term employees, and students and mothers employed as casuals, mostly declare themselves to be satisfied with their employment circumstances. Prime working age males, a small proportion of all casual employees, are often recorded as less satisfied.
- Non-traditional work is mostly a temporary or transitory experience, except for a few groups of casual employees, such as women with children. For many people who are not currently employed, non-traditional work provides a means of gaining employment and a stepping stone to ongoing employment.
  - There is merit in encouraging those outside the labour force to seek non-traditional work, if they cannot obtain ongoing work. However, particular attention should be paid to 'at risk' groups, so that they do not revert to unemployment or exit the labour force.
- For one in four families, non-traditional work is the main source of wage income. Such families are found in all income deciles, indicating that reliance on non-traditional work for wage income is not synonymous with low family income.
  - Families which receive most of their wage income from non-traditional work tend to be less reliant on wage income than other families. Their income is supplemented by government transfers (lowest two deciles) or non-government, non-wage income (other deciles). This suggests that any wage differentials between traditional and non-traditional workers are only partly reflected in total income differences between their families.
- Whether non-traditional work is associated with lower worker wellbeing needs to be assessed in relation to the personal circumstances of individuals in particular socio-demographic groups, and over the course of time.

Overview

Non-traditional work is defined as any form of paid work which differs from the notional benchmark of continuing employment in someone else's business. Only the major forms of non-traditional work are considered in this paper. They are: casual employees; fixed-term employees; labour hire employees; and self-employed contractors.

Non-traditional work has been the subject of much public debate in Australia. Its proponents argue that it benefits employers by providing them with greater flexibility to adjust to business fluctuations, and offers workers increased opportunities to balance their work and non-work commitments. Critics argue that, because of institutional factors and labour market power, the benefits of non-traditional work accrue mainly to employers, to workers' detriment.

These differences notwithstanding, most observers agree that non-traditional work has grown in recent times in Australia, challenging the dominance of traditional, ongoing employment. This growth has paralleled structural changes occurring in many developed economies, including higher female labour force participation and the expansion of the service industries. Some have also argued that periods of high unemployment in the last decades of the twentieth century facilitated the expansion of non-traditional work.

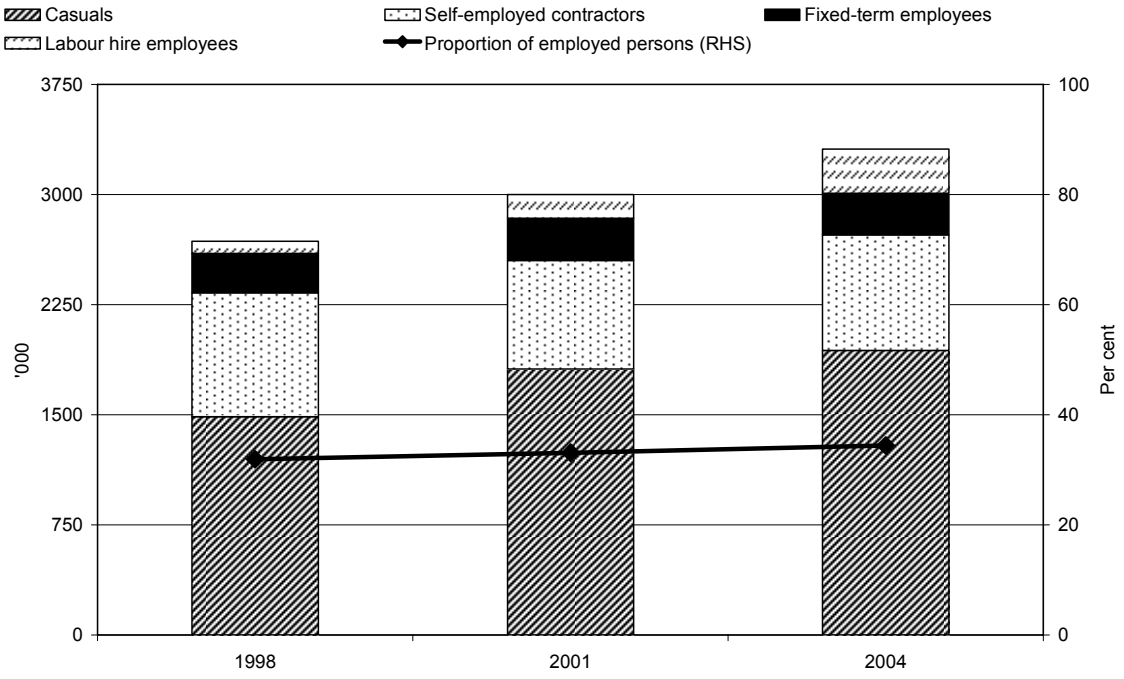
As well as undergoing a partial convergence in numbers, traditional and non-traditional work have also converged in terms of their characteristics. It is no longer possible to state categorically that traditional work offers workers the most entitlements. For example, some traditional workers have cashed out their entitlement to paid recreation leave. Conversely, some non-traditional workers have work arrangements which give them access to some of the conditions or entitlements usually associated with ongoing employment.

The main aims of this paper are to: assess the recent prevalence, growth and characteristics of non-traditional work; examine the role played by this type of work when transitions between different labour market states occur; and gauge the importance of non-traditional work for family income.

Prevalence and growth of non-traditional work

Productivity Commission estimates based on survey data suggest that around 3.3 million people where engaged in non-traditional work in 2004. Although this number increased between 1998 and 2004, non-traditional work's share of the total workforce remained largely stable during this period, at around one third (figure 1). Casuals are the largest non-traditional form of employment by far. In 2004, casual employees numbered around 1.9 million, more than twice the number of the second largest group of non-traditional workers, namely self-employed contractors (0.8 million).

Figure 1 **Non-traditional workers: total prevalence and number by form of employment[a]**



a The **Self-employed contractor** category is not exclusive of other non-traditional work categories.

Data source: Productivity Commission estimates based on published and unpublished data from ABS (Forms of Employment Survey, Cat. no. 6359.0) and HILDA 2001 and 2004, release 4.0. Refer to chapter 2 and appendix A for details.

The number of people in fixed-term employment is more uncertain. Depending on which dataset is used, fixed-term employees are almost as numerous (0.6 million in 2004, according to the Household, Income and Labour Dynamics in Australia [HILDA] survey) as self-employed contractors or only as numerous (0.3 million in 2004, according to the Forms of Employment survey [FOES]) as labour hire employees. That estimate of labour hire employee numbers (0.3 million in 2004) can only be produced on the basis of HILDA survey data.

Inconsistencies between surveys and (occasionally) within surveys make an assessment of the growth of non-traditional work somewhat hazardous. That said, the definition of self-identified casuals is fairly robust across surveys and over time. Based on this definition, the number of casual employees appears to have grown strongly between 1998 and 2001, but only slowly thereafter. Casual employment's share of the workforce, which had grown in the earlier period, remained stable between 2001 and 2004.

The identification of self-employed contractors is more experimental in nature, and can only be undertaken on the basis of the FOES survey. Within that limited context, the number of self-employed contractors can be estimated to have fallen in both absolute and relative terms between 1998 and 2001. Between 2001 and 2004, self-employed contractors became more numerous, but their share of the workforce remained constant.

Both fixed-term employees and labour hire employees grew in number and prevalence from 1998 to 2001 (labour hire) or to 2002 (fixed-term). Since these times, fixed-term employees have declined in terms of both number and prevalence. Labour hire employees have continued to see their number increase, but their prevalence has levelled off.

Characteristics of non-traditional work

The population of non-traditional workers comprises diverse and distinct groups, so that generalisations are mostly unfounded. Using ongoing employees as a convenient yardstick reveals that many non-traditional workers have characteristics in common with that group. For example, fixed-term employees are at least as educated and skilled as ongoing employees and, like them, tend to work full-time in capital cities. Self-employed contractors have the same propensity to work long hours as ongoing employees and fixed-term employees. However, unlike these two groups, they also have a high prevalence of part-time work, second only to casual employees. Casual employees are the group least similar to ongoing employees, in that they tend to work part-time and be young, female, less skilled and more prevalent in regional and remote areas than in cities.

There are also important differences within some groups of non-traditional workers. Almost half of all casual employees are aged below 25 and almost three in ten of all casual employees are students. However, not all casual employees are young: 42 per cent are of prime working age, that is aged between 25 and 54. About 40 per cent of this older group have lower levels of education (Year 12 or lower), and about a quarter have dependants. Prime working age male casuals with dependants or low

education often report low levels of satisfaction with most aspects of their work. However, they form a small proportion of all casual employees and a very small proportion of all employees.

By contrast, survey data reveal that other groups of casuals appear relatively satisfied with their employment. Casuals aged between 55 and 64, and female casuals aged 25 to 54, report the highest overall level of job satisfaction of all casuals, with a score of nine out of ten on the scale used by the HILDA survey. This is consistent with the view that casual employment meets the needs of a number of groups. For example, data presented in this paper show that casual employment has many of the job attributes sought by people seeking to achieve a transition between full-time work and retirement, and a balance between work and family.

Non-traditional work and labour market transitions

Part of the ongoing debate about the value or otherwise of non-traditional work turns on the issue of whether this form of work facilitates access by some groups to stable employment. The 'stepping stone' hypothesis holds that, should they want to, unemployed people, those not in the labour force, and people with low levels of education, have a better chance of achieving stable ongoing employment if they first acquire skills and experience in a non-traditional job.

Critics of the non-traditional forms of employment argue that they are a persistent state, at best, and, at worst, that they only offer a temporary break from unemployment or not being in the labour force. Reasons cited to support these views range from a lack of training and promotion opportunities, to the scarring effects of irregular work, and to a deliberate employer strategy to avoid some of the on-costs of traditional employment.

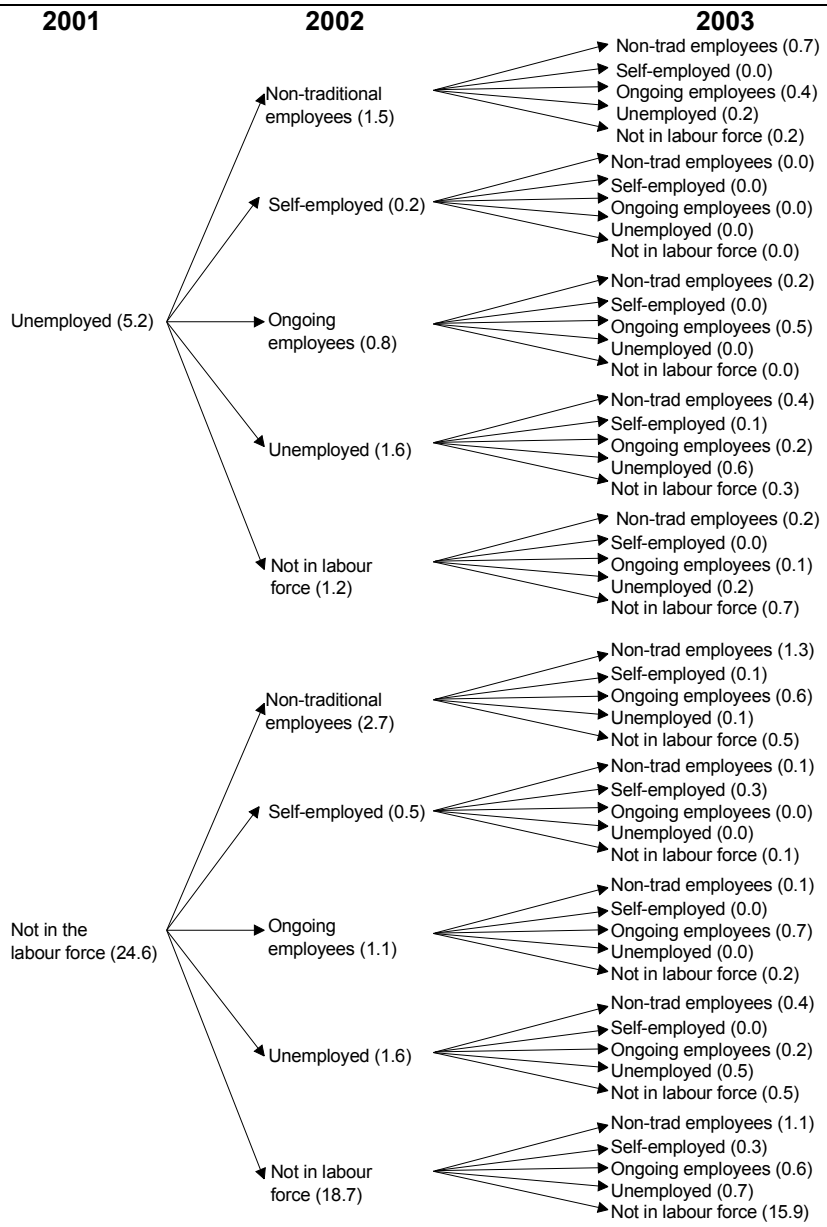
The longitudinal HILDA survey enables an innovative approach to be used to investigate some of the competing hypotheses about non-traditional work. By following individuals over several years, it is possible to determine whether non-traditional work is:

- a useful precursor to ongoing employment; or
- a persistent state; or
- only a temporary escape from being without work.

The analysis of transitions data in this paper broadly supports the 'stepping stone' hypothesis. Of the group of working age people who were unemployed or out of the labour force in 2001, but were employed in 2003, almost two thirds had worked or were working in a non-traditional job in 2003. Only one third had not engaged in

non-traditional work in 2002 or 2003 (figure 2). Of those who were in non-traditional employment in 2002, but subsequently changed their labour market state, approximately half had progressed to ongoing employment by 2003, while half had reverted to being without work. The figure also illustrates other pathways to ongoing employment for the unemployed and people not in the labour force.

Figure 2 **Labour market transitions of those who were unemployed or not in the labour force in 2001,[a] per cent**



a Figures in brackets refer to a particular group's share of the total working age population (15 to 64) in 2001. Ongoing employees exclude labour hire employees.

Data source: Adapted from figure 5.1. Productivity Commission estimates derived from HILDA 2001–03 surveys, release 3.0.

Among those moving from non-traditional employment to ongoing employment, econometric analysis of casual employees suggests that those who work full-time, or would prefer to work more hours, have a higher probability of making this transition, relative to other casual employees. By contrast, casual employees with a disability, a long unemployment history, or an unemployed partner have a higher probability of reverting to not working.

Unlike fixed-term employees and labour hire employees, a minority of casual employees remain in that form of employment for long periods. Quantitative analysis indicates that, for some of these long-term casuals, this could be due to labour market disadvantage arising from a poor command of English. However, other evidence from the HILDA survey is consistent with the interpretation that casual employment is the preferred labour market state of some groups (such as females with dependants and older Australians), which may explain its persistence among these groups.

Combined with the characteristics analysis outlined earlier, the results of the transitions analysis suggest that non-traditional work fulfils two important roles in the labour market.

- It frequently provides a bridge between not working and being in ongoing employment, for those who prefer ongoing to non-traditional work.
- Non-traditional work provides a way for those who — for reasons related to choices about education, child rearing or partial retirement — derive relatively more benefit from non-work activities, to achieve objectives not related to work.

Workers' involvement in non-traditional employment can, therefore, reveal their work (and, implicitly, non-work) preferences. However, their choice will be constrained by the set of options on offer from employers. That set may be narrower for some non-traditional workers than for others.

Non-traditional wages and family income

Non-traditional work is an important source of income for many Australian families. In 2003, more than one in four families with any wage income earned most of it from non-traditional work. However, ongoing employment remains the main source of family wage income, with almost three-quarters of families earning most of their wage income from that type of work.

Families that rely on non-traditional work as their main source of wage income ('non-traditional wage families') are the majority in the lowest income decile, but

are a minority in all other deciles. This is partly due to the overrepresentation of single person families in the lowest income decile, compared with other deciles.

Among families who receive some non-traditional wage income, those below the median level of income usually have a non-traditional worker as their primary wage earner. This is not the case for families earning more than the median level of income. The distribution of single person families across income deciles may partly explain this result. Nevertheless, many non-traditional wage earners in high family income deciles are the family's main wage earner (including in the highest income decile).

In all family income deciles, wage income makes up a smaller proportion of family income for non-traditional wage families than for traditional wage families. In the two lowest deciles, non-traditional wage families receive proportionately more government transfers than traditional wage families. In higher deciles, non-traditional wage families receive proportionately more non-government, non-wage income than traditional wage families do. This suggests that any wage differentials between traditional and non-traditional workers are only partly reflected in total income differences between their families.

Conclusions

The research presented in this paper supports a number of broad conclusions.

First, the findings about prevalence and growth suggest that, while non-traditional work makes up a large segment of the Australian labour market, its continued expansion is not inevitable, as some have argued. Without exception, the workforce shares of the major forms of non-traditional work have either levelled off or declined since 2001. The size of the main non-traditional form of employment — casual employment — appears to be growing still, but at a much lower rate than in the 1998–2001 period, with its share of the workforce remaining constant at about 20 per cent.

Second, non-traditional workers are a heterogeneous group, so that generalisations about them are often unfounded. The various categories of non-traditional worker differ from each other, and important differences exist within individual categories, especially casual employees. Whether non-traditional work is satisfactory or unsatisfactory, from a worker's point of view, can only be assessed in relation to individual forms of employment and to particular socio-demographic groups within them.

Third, the analysis of transitions data suggests that there is a case for encouraging those not in employment to seek non-traditional work, if they cannot obtain ongoing work. Long and repeated spells outside the labour force or in unemployment can have a scarring effect, permanently reducing the chances of a person obtaining ongoing employment. By contrast, non-traditional work has been a largely transitory state, often leading to ongoing employment for those who prefer it. Mandatory limits on the use of non-traditional work by firms would inhibit this stepping stone effect.

However, the transitions analysis also indicates that particular attention should be paid to 'at risk' groups, such as people with disabilities or a long unemployment history. Because of their characteristics, such groups can miss out on stepping stone benefits and, instead, churn between non-traditional jobs and unemployment.

Fourth, income from non-traditional work is the main source of wage income for a quarter of all Australian families. These non-traditional wage families are present in all family income deciles, which implies that reliance on non-traditional work for income is not synonymous with low family income. That many non-traditional wage families are found in the lowest income decile is partly due to family structure. For these families, and those in the second decile, wages are supplemented by significant government payments. This suggests that any wage differentials between traditional and non-traditional workers are only partly reflected in total income differences between their families.

1 Introduction

Recent decades have been a time of change and innovation in the world of work. Alongside the increasing labour force participation rate of women and students, and the growth in service and knowledge jobs, new or newly significant forms of employment have emerged. These forms may be jointly described as 'non-traditional work', in that they differ from the stereotype of a person, usually male, employed in an ongoing capacity in someone else's business. Additional features of non-traditional work can include an absence of, or restricted access to, some work entitlements, such as paid holiday leave, redundancy benefits and training.

Public debate continues about the nature, role and welfare implications of non-traditional forms of work. Proponents of this type of work argue that it meets employer needs for greater flexibility to cope with increased competition in their product markets, and worker needs for greater independence and work–life balance (Roskam 2005; DEWR 2003, 2005). Critics of non-traditional work see the associated reduction in worker entitlements as a manifestation of a deliberate employer strategy to lower production costs, facilitated by the employment regulation framework (Pocock et al. 2004a; May et al. 2005). The arguments put forward by this second group are often accompanied by claims that the prevalence of non-traditional work is high and rising in Australia, relative to comparable countries (Burgess and Connell 2004; Campbell 2004).

In this paper, non-traditional workers are defined as:

- casual employees;
- fixed-term employees;
- labour hire employees; and
- self-employed contractors.

Although these categories are located at different points along a continuum of work entitlements and conditions, they all diverge in many important respects from the notional benchmark of an ongoing employee with a comprehensive set of work entitlements. Other forms of non-traditional work exist, such as those performed by outworkers and voluntary workers, but they are minor and not covered in this paper. Part-time work is regarded by some as a form of non-traditional employment (Rubery et al. 2005; Burgess 2005). However, hours worked are a work

arrangement which correlates only imperfectly with forms of employment. For example, most casual employees work part-time, but more part-time employees are ongoing than casual. For this reason, part-time work is not treated as a separate category here.

This paper presents an analysis of the prevalence, growth and characteristics of non-traditional work in Australia. It also examines the role that this form of work plays in the Australian labour market, in two ways: first, by discussing the reasons that might explain why employers and workers choose non-traditional work; second, by analysing the importance of non-traditional work as an entry point into, or as an exit point from, traditional work. Finally, the paper considers some of the life-cycle and household dimensions of non-traditional work; for example, as a secondary source of employment and income within households.

1.1 What makes some work non-traditional?

According to Burgess and Campbell (1998), the period after WWII saw a clear dichotomy emerge in OECD countries between 'standard' or 'traditional' employment, and 'non-standard' ('non-traditional') employment. Traditional employment grew in importance during much of the second half of the twentieth century, underpinned by rapid economic growth and periods of full employment. Traditional work, which 'was presumed to possess standard attributes in terms of income, legal status, tax status, benefit entitlements and continuity' (Burgess and Campbell 1998, p. 9), became the focus of government employment and social security policies. It was also central to the policies of trade unions. By contrast, non-traditional work was largely residual, unregulated and given little attention by both policy makers and unions. Unlike traditional work, non-traditional work was heterogeneous: depending on which of its features were emphasized, it was variously termed 'non-traditional', 'non-standard', 'atypical', 'temporary', 'contingent', or 'precarious'.

In more recent times, the gap between traditional and non-traditional work has lessened. Greater female labour force participation, periods of high unemployment and the shift to service industries in Western economies have been associated with a rise in the number of workers falling outside the boundaries of traditional work (OECD 2002).

The rise in the number of non-traditional workers has been accompanied by a blurring of the line between the detailed conditions and entitlements of these workers and those of traditional workers. Such blurring has occurred partly because traditional workers have moved closer to non-traditional workers in terms of their

work arrangements. For example, the prevalence of traditional workers working part-time or outside of hours previously considered 'normal' has increased noticeably (Rubery et al. 2005). Also, the simplification of some industrial awards and the expansion of workplace bargaining have meant that the entitlements of traditional workers have become more variable. For instance, such workers are often able to 'cash out' their entitlement to paid holiday leave (ACIRRT 2005).

For these reasons, some authors have argued that the 'traditional' model of employment is becoming increasingly influenced by market forces, with 'permanent' work now more 'contingent' than in earlier times (Buchanan 2000). Nonetheless, traditional work continues to be distinguished by an ongoing contract of employment, which can only be terminated by the worker resigning or by the employer making the position redundant. In the remainder of this paper, therefore, the terms 'traditional' and 'ongoing' are used interchangeably.

The observed narrowing of the gap separating traditional from non-traditional work has also resulted partly from the latter moving closer to the former in some important respects. For example, the precariousness of jobs is no longer necessarily a defining characteristic of non-traditional work; many casual workers are covered by unfair dismissal legislation, have earnings that do not vary and expect continued employment with their current employer (Murtough and Waite 2000a, 2000b). Similarly, many labour hire workers have entitlements and conditions that are identical to those of traditional workers (Laplagne and Glover 2005).

The combination of these trends calls into question the usefulness of distinguishing jobs as standard (traditional) or non-standard (non-traditional) in a modern labour market. As Burgess and Campbell (1998, p. 10) state:

> It thus appears not only that non-standard jobs are growing at a faster rate than standard jobs, but that standard jobs are disappearing. Standard employment arrangements are fast losing their claim to be regarded as a norm.

Similarly, O'Donnell (2004, p. 16) suggests that:

> … new types of regulatory instruments — such as individualised statutory agreements — might mean pay structures, entitlements and benefits, working time arrangements, job security and career prospects can be reconfigured in complex ways such that employer 'flexibility' need no longer be predicated on the nature or status of engagement and so the simple distinction between 'standard' and 'non-standard' jobs appears increasingly unhelpful.

These definitional issues notwithstanding, the terms 'traditional' and 'non-traditional' are retained in the remainder of this paper, to facilitate exposition. They are used as shorthand to categorise the five forms of employment of interest: ongoing employees, casual employees, fixed-term employees, labour hire

employees and self-employed contractors. Use of these terms should not obscure the increasing diversity of the specific working arrangements available to each category of worker. This diversity has contributed, in part, to the lack of a consensus regarding the effects of different forms of employment on the wellbeing of workers.

1.2 Why is non-traditional work of policy interest?

Non-traditional work has potential policy implications in a number of areas, including:

- the wellbeing of workers;
- taxation;
- labour market and industrial relations reform;
- population ageing; and
- skills shortages.

The expansion of non-traditional work in recent times, combined with the view that this form of work has eroded the wellbeing of workers, has motivated calls for government intervention to limit employer access to this type of labour or, alternatively, to increase this group's entitlements (ACTU 2002; Pocock et al. 2004a; May et al. 2005; Peetz 2005). Underpinning these calls are concerns that non-traditional work is inferior to traditional work in several dimensions: hours worked; income; benefits; training; and representation (Burgess and Campbell 1998; Watson 2005a). Even self-employed contracting, which differs in many respects from other forms of non-traditional work, is regarded by some as often precarious, involuntary and vulnerable (McKeown 2005; O'Donnell 2004, 2005).[1]

Non-traditional work also continues to be of concern with regard to the equitable treatment of taxpayers and the preservation of the taxation base. Concern in these areas centres on those self-employed and labour hire contractors who, depending on their professional circumstances, are regarded either as independent businesses or as employees by the Australian Tax Office (ATO). The former are able to access a wider range of tax minimisation instruments than the latter. Changes to the taxation arrangements governing self-employed contractors and consultants were introduced by the *Alienation of Personal Services Income Act 2000*, and were designed to achieve parity of treatment with employees. Despite these changes, there is evidence that the Australian Government is still losing tax revenue because some

[1] Especially, but not exclusively, in its 'dependent' form (see chapter 2).

self-employed contractors who are in reality employees are benefiting from tax concessions to which they are not entitled (see chapter 3 and appendix A).

The Australian Parliament has recently adopted, or may shortly be considering, the following labour market and industrial relations reform bills:

- *Workplace Relations Amendment (Work Choices) Act 2005*;
- *Employment and Workplace Relations Legislation Amendment (Welfare to Work and Other Measures) Act 2005*; and
- *Independent Contractors Act* (proposed).

Each of these bills has potential implications for non-traditional work. For example, the proposed independent contractors legislation, among other objectives, would:

- bring independent contractors under the sole remit of commercial law, not workplace relations law;
- override State legislation deeming some independent contractors to be employees for the purpose of workplace regulation; and
- replace existing State legislation dealing with unfair contracts (DEWR 2005).

Proponents of these measures argue that they are designed to maximise choice for businesses and workers, and to meet people's aspirations for more independence and autonomy in their work. If passed, this legislation may alter incentives to employ an independent contractor, or become one.

Another example of the relevance of non-traditional work to current government policy is provided by the 'Welfare to Work' legislation. This set of welfare reforms is intended to assist and encourage into the labour force people with disabilities and sole parents of school-aged children. On gaining employment, people targeted by this legislation usually obtain casual or part-time employment in the first instance (Productivity Commission 2005). Assessing how effective this policy is likely to be in promoting durable employment and reductions in transfer payments requires knowledge of the factors that determine whether casual employees 'churn' between employment and non-employment, or whether they eventually secure ongoing employment.

Population ageing is yet another area where policy makers need to be aware of the role and characteristics of non-traditional work. The implications of an ageing population for the supply of labour and skills have been analysed in recent government studies (Australian Government Treasury 2002; Productivity Commission 2005). What happens to the supply of labour as the population ages will depend, in part, on the relative prevalence of part-time (including casual) and full-time work in older age groups. If, in coming decades, the overall prevalence of

casual employment grows in step with ageing, the average number of hours worked per person may decline:

> The share of people working less than 35 hours per week is projected to grow as older workers have a tendency to prefer shorter and possibly more flexible working weeks. (Andrews 2005a)

However, some argue that casual employment might, in other ways, alleviate the effects of population ageing, by increasing the labour force participation of older Australians:

> The most realistic way of retaining our mature workforce is to encourage those who want to continue working to do so while also enjoying the fruits of retirement at the same time. Flexible working arrangements enable this to happen. (Recruitment and Consulting Services Association Ltd, cited in Barresi 2005a, pp. 41–42)

Working as a self-employed contractor or for a labour hire agency are also frequently cited ways for older workers to remain in the labour force while having greater leisure, or as a means of rejoining the labour force following retrenchment (DEWR 2005).

Thus, in order to design policies that respond appropriately to the economic effects of population ageing, knowledge of the role of non-traditional work in the life cycle of Australian workers would be useful.

1.3 What research questions are addressed in this paper?

It is not the purpose of this paper to address directly or in full all the policy questions raised in the previous section. However, the analysis and results presented in subsequent chapters might assist the policy formation process indirectly, by providing policy makers and other interested parties with timely data and relevant analysis. For example, recent Parliamentary inquiries recommended that the Australian Government:

- conduct a comprehensive study of the growth of casual employment (Barresi 2005c); and
- obtain good quality data on the prevalence of labour hire workers and independent contractors (Barresi 2005a).

The up-to-date information about the prevalence, growth and characteristics of non-traditional work, contained in this paper, goes some way towards meeting these recommendations. Further, the paper exploits, for the first time in this context, the repeated annual observations on the same individuals available in the Household,

Income and Labour Dynamics in Australia (HILDA) survey to shed light on transitions to and from non-traditional work, and on the role of non-traditional work in household income. This analysis offers insights of direct relevance to several public policy areas, such as transfer and retirement income policies.

Specifically, the broad research questions addressed in this paper are as follows:

- What is the prevalence of non-traditional work? Has this form of work grown relative to traditional work?
- What are the demand, supply and institutional factors operating in the labour market that might explain the existence and growth of non-traditional work?
- What are the characteristics of non-traditional work? How do they compare with those of traditional work? What do the differences between the two categories reveal about the role of non-traditional work in the Australian labour market?
- How persistent or transitory a labour market state is non-traditional work? How beneficial is time spent in non-traditional work in securing ongoing employment? What are the risk factors associated with: remaining in non-traditional work; or 'churning' between non-traditional work and not working?
- How important is non-traditional work for family income? Where, in the household income distribution, are non-traditional workers located?

These questions are addressed in the following chapters. Chapter 2 provides definitions of the four types of non-traditional work covered in this paper (casual, labour hire and fixed-term employees, and self-employed contractors). Recent growth in, and the current prevalence of, each form of non-traditional work are also examined in that chapter. In chapter 3, the reasons why employers and workers might choose non-traditional work are analysed. The characteristics of non-traditional workers, and how they differ from those of traditional workers, are detailed in chapter 4. Chapter 5 examines labour market flows into and out of non-traditional work. Transitions from casual employment are analysed in chapter 6 using econometric techniques. The contribution that income from non-traditional work makes to total family income is considered in chapter 7. Chapter 8 concludes the paper.

2 Identifying non-traditional workers

Key points

- In 2004, around 3.3 million persons were engaged in some form of non-traditional work, representing approximately a third of all employed persons.
- While non-traditional workers probably grew in number between 1998 and 2004, their share of the workforce remained relatively constant.
- Casual employment is by far the largest non-traditional form of employment, with approximately 1.9 million casuals in 2004, equivalent to 20 per cent of all employed persons. The growth in this form of employment was most rapid between 1998 and 2001 but appears to have slowed since that time.
- Between 1998 and 2001, the proportion of casuals whose earnings do not vary and who have an implicit contract for ongoing employment ('permanent' casuals) increased, from 35 per cent to 39 per cent of all casuals.
- Self-employed contractors are the second largest of the non-traditional forms of employment, with around 0.8 million persons or 8 per cent of all employed persons in 2004. This category experienced a decline in both relative and absolute terms between 1998 and 2001. From 2001 to 2004, it grew in number, but not as a proportion of the workforce.
- The decline in the overall number of self-employed contractors was due to a fall in the number of independent contractors. By contrast, 'dependent' contractors increased both in number and in share between 1998 and 2001.
- On best estimates, the number of fixed-term employees was 0.6 million in 2004, or 7 per cent of employed persons. While it is hard to be definite, this category appears to have grown between 1998 and 2002 and declined thereafter.
- Labour hire employees numbered about 0.3 million in 2004, representing 3 per cent of all employed persons. This form of non-traditional work increased in both absolute and relative terms between 1998 and 2001. Since that time, numbers have continued to grow, but prevalence has remained stable.

This chapter examines the prevalence of non-traditional work in its various forms: casual employees; fixed-term employees; labour hire employees; and self-employed contractors. It also compares current and earlier estimates of prevalence, to assess the growth in this segment of the Australian labour market since 1998. Because measures of both prevalence and growth depend crucially on the definitions used,

this chapter also discusses, in successive sections, alternative approaches to defining the four non-traditional work categories of interest. Prior to this, the first section presents an overview of the overall prevalence and growth of non-traditional work.

2.1 The prevalence and growth of non-traditional work

Due to differences in the timing, scope and focus of available data sources, measurement and comparisons of non-traditional work over time are difficult. While it does not always allow the best quality estimates to be produced, the only survey that gives a broadly consistent and comprehensive picture of all forms of non-traditional work from 1998 onward is the ABS Forms of Employment survey (FOES). Estimates of the number of non-traditional workers based on the 1998, 2001 and 2004 waves of that survey are presented in table 2.1. Based on these figures, 3.3 million workers, or 34 per cent of all employed persons, were engaged in non-traditional work in 2004. In that year, therefore, around one in every three employed persons was in a form of employment which differed from the traditional 'norm' of an ongoing employee working full-time, and receiving full entitlements.[2]

Of the four groups of non-traditional workers identified in table 2.1, the largest is casual employees. Almost 60 per cent of non-traditional workers were employed in this form of employment in 2004. Self-employed contractors were the second largest group (24 per cent), followed by fixed-term employees and labour hire employees (both at around 9 per cent).

Table 2.1 **Prevalence of non-traditional work in FOES,[a] 1998, 2001, and 2004**

Non-traditional work category[b]	*1998*		*2001*		*2004*	
	'000	%	'000	%	'000	%
Casuals	1 486.9	(55.5)	1 811.0	(60.4)	1 937.7	(58.5)
Fixed-term employees	266.1	(9.9)	288.1	(9.6)	283.6	(8.6)
Self-employed contractors	843.9	(31.5)	739.5	(24.6)	787.6	(23.8)
Labour hire employees	84.3	(3.1)	161.8	(5.4)	301.0[c]	(9.1)
Total	**2 681.2**	**(31.9)**	**3 000.4**	**(33.1)**	**3 309.9**	**(34.4)**

[a] Figures in brackets measure the proportion of each form of employment within the total number of non-traditional workers in each year. In the "Total" row, figures in brackets measure the prevalence of non-traditional work in the employed persons population aged 15 and above, except in 2001 (15 to 69 only). [b] See subsequent sections for definitions and discussions of non-traditional work categories. [c] This figure is based on the 2004 HILDA survey. No information regarding labour hire is available in the 2004 FOES survey.

Source: Productivity Commission estimates based on published and unpublished data from the ABS (Forms of Employment Survey, Cat. no. 6359.0) and the HILDA survey, 2004, release 4.0. See appendix A for details of how estimates were generated.

2 Hereafter, the terms 'ongoing' and 'permanent' are used interchangeably.

Between 1998 and 2004, the prevalence of non-traditional work grew slightly, from 32 per cent to 34 per cent of the total workforce. The highest growth rates over that period were recorded by labour hire and casual employment.[3] The number of fixed-term employees grew only slowly over that period, while that of self-employed contractors declined.

The estimates presented above must be treated with caution. Their accuracy is affected by several issues:

- The categories listed in that table are not mutually exclusive, so that overlaps exist between them (for example, between casual and labour hire employees). The extent of these overlaps is unknown in most cases.
- The FOES survey is conducted by the ABS using the Any Responsible Adult (ARA) method. This survey technique is less accurate than personal interviews because the household member who is interviewed may not be fully aware of the form of employment of another household member.
- There is a lack of consensus with some of the definitions used to identify different groups of non-traditional workers, so that the categories appearing in table 2.1 are the subject of ongoing debate.

The impact of these issues may be illustrated by comparing the FOES survey estimates in table 2.1 with selected estimates based on the other major data source — the Household, Income and Labour Dynamics in Australia (HILDA) survey (table 2.2). The HILDA survey uses definitions and a methodology that differ from those used in the FOES survey, and the two surveys are not affected by category overlap in the same way.

With the exception of casuals, there are large differences in estimates of non-traditional work derived from the FOES and HILDA surveys for similar years. The two surveys differ most in terms of the estimated number of fixed-term employees.[4] Even when labour hire employees are subtracted from the population of fixed-term employees in table 2.2, the HILDA survey estimates are more than twice as high as those from the FOES survey. The estimate of the total number of labour hire employees in 2001 is also higher in the HILDA survey than in the FOES survey.

[3] However, the measured growth of labour hire in table 2.1 may be overstated due to the lack of a FOES survey estimate for 2004, and the use of a HILDA survey estimate for 2004 in its place (see appendix A).

[4] Self-employed contractors cannot be identified in HILDA (see appendix A).

Table 2.2 **Non-traditional employees in HILDA,[a] 2001 and 2004**

	2001		*2004*	
	’000	%	’000	%
Casuals	1 878.9	(67.0)	1 979.6	(67.7)
Of which: labour hire	*176.9*		*170.4*	
Fixed-term employees	651.0	(23.2)	643.3	(22.0)
Of which: labour hire	*41.8*		*46.1*	
Labour hire employees[b]	276.4	(9.8)	301.0	(10.3)
Total	**2 806.3**	**(30.6)**	**2 923.9**	**(30.4)**

[a] Figures in brackets measure the proportion of each form of employment within the total number of non-traditional workers in each year. In the “Total” row, figures in brackets measure the prevalence of non-traditional work in the employed persons population aged 15 and above, except in 2001 (restricted to 15 to 69 only, to allow comparison with the FOES survey of that year). [b] Includes labour hire employees with an ongoing contract of employment. Does not include a small number of labour hire employees who did not report their form of employment.

Data source: Productivity Commission estimates based on the HILDA survey, 2001 and 2004, release 4.0.

For reasons detailed in appendix A, the HILDA survey estimates of fixed-term and labour hire employee numbers are judged more reliable than those generated from the FOES survey. This implies that, if anything, the prevalence estimates presented in table 2.1 are underestimates. However, estimates based on the FOES survey have the advantage of consistency over a longer period of time than those based on the HILDA survey and are, therefore, better indicators of long-term growth.

In the following sections, possible definitions of each category of non-traditional work are discussed, including, in some cases, for sub-groups of particular interest within each category.

2.2 Casual employees

Notwithstanding its long history and its current prevalence in Australia, casual employment is not easily defined, as the following quotes illustrate:

> The term “casual” is a colloquial and ill-defined expression. (Creighton and Stewart 2000, p. 213)
>
> There is no precise definition of a casual employee that is widely accepted among industrial relations practitioners. (Murtough and Waite 2000a, p. 11)
>
> … definitions of casual employment are often a site of confusion and controversy, marked by tensions between vernacular, regulatory and contractual meanings. (Campbell 2004, p. 85)
>
> The term ‘casual’ is one that has no precise or fixed meaning in law. There is in one sense, then, no such thing as a ‘true casual’ according to law. The common law, for

instance, provides no single or clear criteria for defining or identifying a casual employee. (Owens 2001, p. 119)

A number of inconsistent and competing definitions of casual employment can be found. An informal yet common interpretation of casual work is work that is occasional, irregular and short-term. However, some industrial awards simply define casuals as persons who are 'engaged and paid as such' without providing further information (Creighton and Stewart 2000). Casual employees are also often defined by reference to their lack of some work entitlements, such as paid holiday leave and sick leave (see chapter 3). Another distinguishing characteristic is that casuals are, for the most part, not entitled to protection from unfair dismissal (box 2.1). Casuals, however, are covered to the same extent as other employees by other legislation, such as that governing OH&S and unlawful dismissal (for example, due to sex discrimination). Finally, most casuals receive one benefit that ongoing employees do not receive, namely a wage premium called a 'loading', which is designed to compensate them for the loss of some entitlements.

Despite ongoing debate about the precise meaning of the term 'casual', the various definitions in existence have only limited bearing on the measurement of the prevalence of this form of employment. In recent years, only two definitions have been adopted in large-scale surveys of forms of employment, based on an absence of paid leave entitlements or on self-identification as a casual (see appendix A).

Permanent casuals and true casuals

Being termed a 'casual', for example as part of an industrial award, does not necessarily imply that one's work is occasional, irregular and short-term. Some persons employed on a casual contract of employment resemble ongoing employees, in that they can be reasonably assured of continuous and stable employment with the same employer (box 2.1). For this reason, Murtough and Waite (2000a, 2000b) distinguished a category of casual worker which they termed 'permanent casual', based on the fact that these workers:

- do not have earnings that vary (excluding overtime); and
- have an implicit contract for ongoing employment, defined as:
  - having a fixed-term contract but expecting it to be renewed; or
  - not having a fixed-term contract and not expecting to leave their job in the next twelve months for reasons initiated by their employer.[5]

[5] Such reasons include a job having a set completion date.

Box 2.1 **Permanent casuals and true casuals**

Given the confusion between its regulatory, vernacular and contractual usages, the term 'casual' is not, in itself, a useful proxy for whether a job is secure or not, what type of entitlements it attracts, and whether it is covered by unfair dismissal legislation. Accordingly, courts and tribunals have tended to distinguish between 'true' casuals and 'permanent' casuals. The characteristics of each group may be summarised thus:

- **True casuals** have work arrangements characterised by informality, uncertainty and irregularity. For these workers, each engagement may be regarded as a new contract of employment, which limits their access to leave entitlements. This group of casuals is not protected by legislation against unfair dismissal and cannot request conversion to ongoing employment. Members of this group are likely to have earnings that vary, low training and promotion opportunities, and expectations of sporadic employment.
- **Permanent casuals** are similar in many respects to ongoing employees. They enjoy stable and regular employment with the same employer, which entitles them (after twelve months) to the protection of unfair dismissal legislation, the right to request conversion to ongoing employment in some States, and to long service leave.

Following some uncertainty created by a 2003 decision of the Australian Industrial Relations Commission (*Cetin v Ripon Pty Ltd t/as Parkview Hotel* 127 IR 205), the legal distinction between true casuals and casuals to be regarded as ongoing employees for the purpose of unfair dismissal protection was reaffirmed in 2004 by the full bench of the Australian Industrial Relations Commission (*B. Nightingale v Little Legends Childcare* PR948229). In that second decision, the Commission held that casual employees who are employed on a regular and systematic basis, and have a reasonable expectation of ongoing employment, are exempt from unfair dismissal protection under the *Workplace Relations Act 1996* if they have been employed for less than twelve months.

Despite its grounding in case law, some authors question the usefulness of the true casual/permanent casual distinction:

> … that distinction captures neither the diversity of casual arrangements as they evolved from very early on in the century; nor, arguably, does it capture the diversity of casual employment today and the organisational role fulfilled by casual employees … (O'Donnell 2004, p. 7)

Other authors agree with the categorisation of some casuals as ongoing or long-term casuals, but only because it serves to highlight what they claim is a deficit in rights and entitlements afforded to long-term casuals, relative to ongoing employees (Owens 2001; Pocock et al. 2004a; May, Campbell and Burgess 2005).

Sources: Creighton and Stewart 2000; Murtough and Waite 2000a, 2000b; Owens 2001; MinterEllison 2004; O'Donnell 2004; Pocock et al. 2004a; May, Campbell and Burgess 2005; O'Malley 2006.

The authors argued that these criteria accord with industrial courts and legislators' definition of an 'ongoing' or 'permanent' casual. There is, however, continuing debate about where the line between the two groups should be drawn (box 2.1).

Based on their multi-level test, Murtough and Waite estimated that 35 per cent of the 1.5 million self-identified casuals numbered in the 1998 FOES survey were likely to be permanent casuals. They inferred that the remaining 65 per cent were 'true' casuals, in the sense that their employment was probably occasional, irregular, unpredictable and short-term (see Murtough and Waite 2000a and 2000b).

Replicating Murtough and Waite's approach on the basis of 2001 FOES survey data reveals that the proportion of permanent casuals in the overall casual employee population was 38.5 per cent in 2001 (table 2.3 and appendix A). This percentage is higher than in 1998, implying that permanent casual numbers grew more rapidly between 1998 and 2001 than true casual numbers did.

Table 2.3 **Permanent casuals and true casuals,[a] 1998 and 2001**

	FOES 1998		*FOES 2001*	
	'000	%	'000	%
Self-identified casuals	**1 486.9**	**100.0**	**1 811.0**	**100.0**
Of which: Permanent casuals	524.1	35.2	698.2	38.5
True casuals	962.8	64.8	1 112.9	61.5

a See text and appendix A for a definition of ongoing and true casuals. Totals may be affected by rounding.

Source: Productivity Commission estimates based on published and unpublished data from the ABS (Forms of Employment Survey, Cat. no. 6359.0); Murtough and Waite (2000a, 2000b).

Data are not available to measure the proportion of permanent casuals in 2004. It is not possible, therefore, to assess what role the ongoing/true casual dichotomy may have played in the post-2001 slowdown in the growth of casual employment (tables 2.1 and 2.2).

Compared to true casuals, permanent casuals have more work entitlements, and more stable employment and earnings (table 2.4). In some respects, such as originating from a non-English speaking background, permanent casuals are closer to ongoing employees than to true casuals. These results suggest that permanent casual employment may fulfil a need, in the labour market, for a form of employment that combines some flexibility for employers with some job stability for workers. The rigid ongoing/casual dichotomy embodied in industrial awards and in employment statistics may be slowly being replaced, in practice, with hybrid forms of employment.

Table 2.4 **Comparison of permanent and true casual employees,[a] 2001**

		Casual contract		
	Ongoing employees	*Permanent casuals*	*True casuals*	*Total casuals*
	%	%	%	%
Married	64.6	48.2	39.8	43.0
Non-English speaking background	14.4	15.4	10.1	12.1
Works full-time	70.4	27.2	21.8	23.9
Prefers to work more hours	7.0	28.4	41.5	36.4
Continuous duration in main job less than 12 months	16.1	39.1	49.6	45.6
Short-term job[b]	0.1	0.3	6.6	4.2
Variable earnings (excluding overtime)	13.9	0.0	93.5	57.5
Implicit contract for ongoing employment[c]	99.3	100.0	92.1	95.1
Paid holiday leave	99.9	13.2	5.2	8.3
Paid sick leave	99.8	14.4	5.5	8.9
Protected by unfair dismissal laws[d]	83.9	59.6	1.4	23.8

a In this table, characteristics which apply equally to permanent casuals and true casuals have been ignored. **b** Defined as people employed in a main job for less than 12 months and expecting to leave that job in the following 12 months for reasons initiated by their employer (including jobs with a set completion date). **c** People were deemed to have an implicit contract for ongoing employment if they did not expect to leave their main job in the following 12 months for reasons initiated by their employer or if they expected their fixed-term contract to be renewed. **d** Casual employees were deemed to have *no* legislative protection from unfair dismissal if they were employed on a fixed-term contract; or had worked in their job for less than 12 months; or their earnings varied from one month to the next (excluding overtime). For comparison purposes, ongoing contract employees were regarded as having *no* legislative protection from unfair dismissal if they had been working in their job for less then 12 months (this is likely to lead to an underestimate of ongoing employees protected by unfair dismissal legislation, because such employees generally gain such protection after completing a probationary period shorter than 12 months).

Source: Productivity Commission estimates based on unpublished data from the ABS (Forms of Employment Survey, Cat. no. 6359.0); Murtough and Waite 2000b.

It is unfortunately not feasible to distinguish between permanent casuals and true casuals in the various analyses conducted in the remainder of this paper. Thus, in the remaining chapters, the term 'casual' refers to both types of casual employee.

2.3 Fixed-term employees

Fixed-term employees are also known as 'contract workers', but should not be confused with self-employed contractors (see below). They also differ from ongoing workers, who have a traditional, indefinite contract of employment, terminated only by resignation, retrenchment or retirement. Fixed-term employees have contracts of employment that set a duration for the engagement of the worker at the beginning of the period. The duration may be defined either in term of a fixed period of time, or by reference to the completion of a particular task (Creighton and Stewart 2000).

Given the defining characteristic of fixed-term employees, that group overlaps with all three employee categories identified in the FOES survey:[6]

- employees with holiday leave and/or sick leave;
- employees without leave entitlements who identify as casuals; and
- employees without leave entitlements who do not identify as casuals.

In practice, the representation of fixed-term employees in the last two categories is small; in 2001, for example, 74 per cent of fixed-term employees identified in the FOES survey received paid leave entitlements, and only 27 per cent identified as casuals.

Owner managers do not work under a fixed-term contract since, by definition, they are their own employer.

In the past, it was not uncommon for fixed-term, casual and labour hire employees to be grouped together to form estimates of 'temporary employees' in Australia (OECD 1996). This often led to claims that Australia and Spain were the two OECD countries with the highest proportion of 'precarious' or 'at risk' employment (ACIRRT 1999; Campbell and Burgess 2001).[7]

Such claims overlooked the fact that, from the point of view of employment protection and, therefore, precariousness, fixed-term employees differ markedly from casual employees. Like most casuals, fixed-term employees whose contract has run its course cannot claim unfair dismissal. However, unlike casuals, fixed-term employees cannot have their employment terminated at the discretion of their employer. In this, they also differ from ongoing employees, who may be terminated at any time, provided their employer gives them sufficient notice (Creighton and Stewart 2000).[8]

2.4 Self-employed contractors

Self-employed contractors are also sometimes referred to as 'own account workers' or 'independent contractors'. All terminologies suggest that, unlike employees who

6 This is not true of fixed-term employees identified in the HILDA survey, where the 'ongoing', 'fixed-term' and 'casual' form of employment categories are mutually exclusive (see appendix A).

7 In Spain, the largest category of non-traditional work is that of fixed-term employees working full-time (Campbell 2004).

8 O'Donnell (2004) remarks that indefinite (ongoing) employment contracts 'can be thought of as rolling fixed-term contracts in which the term is defined by the period of notice' (p. 6).

work in someone else's business at someone else's direction, self-employed contractors work for and by themselves in their own business and are their own boss. However, the line between an employee and a self-employed contractor is not always an easy one to draw, given that they both perform work for someone else. The relationship between a firm and a self-employed contractor who provides his or her labour to that firm can resemble either:

- the relationship between an employee and an employer, in which case the self-employed contractor is 'dependent' on the firm; or
- the relationship between two firms, in which case the self-employed contractor is 'independent' of the firm (VandenHeuvel and Wooden 1995; Waite and Will 2001).

In common law terminology, the former relationship is termed 'of service' and the latter 'for service'. If an employment relationship is 'of service', then it is governed by an employment contract, and is subject to legislation governing such contracts, such as the *Workplace Relations Act 1996*. If a relationship is 'for service', then it is a commercial contract, governed by such legislation as the *Trade Practices Act 1974*.

The existence of either type of relationship must be determined on a case-by-case basis by courts and tribunals as no generic definitions exist. Over time, courts have developed a series of criteria to help them assess the nature of the relationship between two entities. These criteria include:

- whether the contract permits the worker to perform similar work simultaneously for other employers;
- whether the worker is free to subcontract the work, or employ someone else;
- whether the worker invoices for work done or receives wages;
- whether the payment conditions mean the worker could make a profit or loss;
- whether the worker supplies his or her own tools or equipment; and
- where responsibility for the payment of injury insurance premiums lies. (Waite and Will 2001, pp. 11–12)

Even with the help of these indicators, determining the employment relationship is not straightforward:

> The [criteria] approach is necessarily impressionistic, since there is no universally accepted understanding of how many [criteria], or what combination of [criteria], must point towards a contract of service before the worker can be characterised as an employee. In effect, this 'multi-factor' test proceeds on the assumption that the courts will know an employment contract when they see it. (Stewart 2005, p. 5)

A problem with indicators of dependency is that they can create incentives to structure employee–employer relationships so as to have the appearance of a client–contractor relationship. This result may be achieved in two ways:

- By incorporating as many features of the client–contractor relationship as possible into the employment contract (for example, specifying that the employed person must provide his or her own tools).
- By interposing a legal entity such as a company, trust or labour hire agency between the employer and the employee (Stewart 2005, p. 7).

The possibility that some workers do the same job as employees but are treated as self-employed contractors by their employers is a source of concern for some (ACTU 2005; Stewart 2005; O'Donnell 2005; Barresi 2005b [Dissenting report]). These commentators argue that these 'dependent contractors' exist only as a means for firms to minimise their labour on-costs and workers to minimise their tax exposure. Other commentators reject the notion of dependency altogether, arguing that workers are either employees or independent contractors (ACCI 2005; ICA 2005b).

Nonetheless, the purported existence of dependent contractors has given rise to legislative responses by some governments and government entities. For example, the Queensland Government has adopted 'deeming' provisions, whereby a whole category of workers (for example, security contractors) is treated as employees, irrespective of the provisions of their employment contract. Another response has been, in some States, to ensure that fair trading legislation applies to commercial contracts between firms and small self-employed contractors (for example, owner-drivers in Victoria). Yet another response is embodied in the tax treatment of self-employed contractors (see below and chapter 3).

The Australian Government has recently proposed legislation (the Independent Contractors Act) that would, if accepted, reform the way in which the work of independent contractors and labour hire workers is regulated. Among other features, the legislation would bring contracts entered into by these two groups under the scope of commercial contract law, not employment law (DEWR 2005).

Dependent and independent contractors

As mentioned at the beginning of this section, a number of self-employed contractors could be considered, based on a range of characteristics, to be 'dependent' upon a single client and, therefore, to be employee-like.

Waite and Will (2001) estimated that, in 1998, between 26 per cent and 41 per cent of all self-employed contractors met the criteria for dependent contractors. They used two series of tests to derive a lower bound and an upper bound estimate of the number of dependent contractors. The upper bound estimate was obtained by applying the test of dependency built into the FOES survey, whereas the lower bound estimate embodied a more stringent test of dependency (see appendix A). Waite and Will argue that the lower bound estimate is the more realistic one, given that it accords with ATO estimates of employee-like contractors, and that it is based on tests that would be applied by Australian courts and tribunals (2001, p. 36).

Table 2.5 contains estimates of the number of dependent and independent contractors in 2001, based on Waite and Will's lower bound test.

Table 2.5 **Prevalence of self-employed contractors,[a] FOES 1998 and 2001**

	1998		*2001*	
	'000	%	'000	%
Self-employed contractors	843.9		739.5	
Dependent contractors[b,c]	215.2	25.5	229.4	31.0
Independent contractors[b]	628.7	74.5	510.1	69.0

[a] The FOES 1998 and 2001 surveys are not strictly comparable in terms of scope, definitions and questions, so the estimates presented in the table above must be treated with caution. [b] Lower bound estimate. See text and appendix A for definitions of dependent and independent contractors. [c] Estimated number of dependent contractors in 2001 partly based on HILDA 2001, release 04.

Source: Waite and Will 2001; Productivity Commission estimates based on unpublished data from the ABS (Forms of Employment Survey, Cat. no. 6359.0) and on HILDA Wave 1, release 4.0.

Comparing the 1998 and 2001 lower bound estimates of dependent and independent contractors in table 2.5, it appears that the estimated drop in the overall number of self-employed contractors in this period is due to a fall in the number of independent contractors. From 1998 to 2001, their number declined by 119 000 workers, or almost 19 per cent. Dependent contractor numbers, by contrast, increased slightly, by about 5 per cent. As a result of these opposite movements, dependent contractors amounted to almost a third of all self-employed contractors in 2001, up from around a quarter in 1998.

The proportion of all self-employed contractors who can be regarded as dependent aligns broadly with data from the ATO regarding the proportion of self-employed contractors who are considered to be employees for taxation purposes. Under the *Alienation of Personal Services Income Act 2000* (PSI), self-employed contractors who do not meet certain criteria are taxed as if they were employees. The criteria used by the ATO are designed to measure a self-employed contractor's independence (or lack thereof) from his or her clients (see chapter 3). Since 2001, taxpayers earning personal services income have been allowed to self-administer

the various tests of independence. However, of 2000 audits conducted by the ATO between 2002 and 2005, about a third of cases required a change to employee status (Barresi 2005b). This is suggestive of the proportion of self-employed contractors covered by the PSI who may be regarded as dependent contractors.

To investigate further the changes affecting self-employed contractors between 1998 and 2001, the various contractor populations in each year are broken down by FOES worker population (table 2.6). Notably, employees with paid leave entitlements and self-identified casuals were much less represented in the ranks of dependent contractors in 2001 than in 1998. By contrast, dependent contractors included many more owner managers (particularly of unincorporated enterprises) in 2001 than in 1998. It is possible that the introduction of the PSI in 2000, and of self-assessment in 2001, may have created incentives for dependent contractors previously identifying themselves as employees to assume the characteristics of owner managers by setting up their own business.

Table 2.6 **Dependent and independent contractors by FOES worker population**

	1998			*2001*		
	Dep.	*Indep.*	*All*	*Dep.*	*Indep.*	*All*
	%	%	%	%	%	%
FOES population						
Employees with leave entitlements[a,b]	40.4	na	10.3	21.1	na	6.6
Self-identified casuals[a,b]	30.0	na	7.7	23.6	na	7.3
Employees w/o leave entitlements who do not identify as casuals	6.2	3.0	3.8	0.0	8.3	5.7
Owner managers of inc. enterprises	3.5	15.7	12.6	6.0	13.8	11.4
Owner managers of uninc. enterprises	19.8	81.3	65.6	49.3	77.9	69.0
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

[a] By definition, employees with paid leave entitlements and self-identified casuals cannot be independent contractors (see appendix A). [b] Dependent contractors in these categories estimated on the basis of HILDA 2001 data. **na** not applicable. **Dep.** Dependent contractor. **Indep.** Independent contractor. **All** All self-employed contractors.

Source: Productivity Commission estimates based on unpublished data from the ABS (Forms of Employment Survey, Cat. no. 6359.0) and on HILDA 2001, release 4.0; Waite and Will 2001.

2.5 Labour hire workers

Labour hire work is also known as 'on-hire', 'temp' or 'agency' work. Compared with traditional employment and other forms of non-traditional work, the distinguishing feature of labour hire work is that it involves three parties:

- an employee or a contractor, who supplies labour and occasionally equipment;

- a firm requiring labour and sometimes equipment (the client); and
- a labour hire agency that acts as an intermediary between the other two parties.

The role of the labour hire agency is to match the specific requirements of the client firm (for example, for relief workers or for specific skills) with the characteristics of the employees or contractors registered on its books. Labour hire engagements are usually short-term, but they can sometimes extend over a long period. For the duration of the engagement, regular payments are made by:

- the firm to the labour hire agency for the provision of labour; and
- the labour hire agency to the worker.[9]

In Australia, there are two main forms of labour hire work. A labour hire worker can be an employee of the labour hire agency, who is then on-hired to a client firm (but is not an employee of that firm). Alternatively, a labour hire worker can be a self-employed contractor for whom a labour hire agency finds clients and handles administrative and financial affairs. Labour hire contractors are also known as 'Odco' contractors. In the remainder of this paper, the term 'labour hire employee' is used when referring to labour hire employees only. When referring to both employees and contractors, the terms 'labour hire worker' is used.

2.6 Conclusion

This chapter has discussed the prevalence and growth of several forms of non-traditional work in the Australian labour market. This task has been made more difficult due to:

- a lack of consensus regarding the definitions of the various forms of non-traditional work;
- a lack of recent data on some of the forms of work of interest; and
- the overlaps that exist between all the non-traditional forms of work, as well as with traditional work.

Because of these issues, the figures presented in this chapter are only approximations. Nonetheless, they point to a number of key findings about the evolution of non-traditional work since the previous estimates based on 1998 data were published in Murtough and Waite (2000a, 2000b) and Waite and Will (2001, 2002). These findings are:

[9] Occasionally, labour hire contractors are paid directly by the client firm.

- In 2004, around 3.3 million persons were engaged in some form of non-traditional work, representing approximately a third of all employed persons.
- While non-traditional workers probably grew in number between 1998 and 2004, their share of the workforce remained relatively constant.
- Casual employment is by far the largest non-traditional form of employment, with approximately 1.9 million casuals in 2004, equivalent to 20 per cent of all employed persons. The growth in this form of employment was most rapid between 1998 and 2001 but appears to have slowed since that time, resulting in a stable share of the employed population.
- Between 1998 and 2001, the proportion of casuals whose earnings do not vary and who have an implicit contract for ongoing employment ('permanent' casuals) increased, from 35 per cent to 39 per cent of all casuals.
- Self-employed contractors are the second largest of the non-traditional forms of employment, with around 0.8 million persons or 8 per cent of all employed persons in 2004. This category experienced a decline in both relative and absolute terms between 1998 and 2001. From 2001 to 2004, it grew in number, but not as a proportion of the workforce.
- The decline in the overall number of self-employed contractors was due to a fall in the number of independent contractors. By contrast, 'dependent' contractors increased both in number and in share between 1998 and 2001.
- On best estimates, the number of fixed-term employees was 0.6 million in 2004, or 7 per cent of employed persons. While it is hard to be definite, this category appears to have grown between 1998 and 2002 and declined thereafter.
- Labour hire employees numbered about 0.3 million in 2004, representing 3 per cent of all employed persons. This form of non-traditional work increased in both absolute and relative terms between 1998 and 2001. Since that time, numbers have continued to grow, but prevalence has remained stable.

These findings suggest that, while non-traditional work makes up a large segment of the Australian labour market, its continued expansion is not a foregone conclusion. Without exception, the workforce shares of the major forms of non-traditional work have either levelled off or declined since 2001. This outcome is likely to be the product of changes affecting the supply of, and demand for, non-traditional work, relative to ongoing employment. The factors that may influence employers and workers in their choice of non-traditional work are examined in chapter 3.

3 What are the reasons for the existence of non-traditional work?

Key points

- The existence and growth of non-traditional work is due to the interaction of demand, supply and institutional factors.
- Institutional factors include the regulatory environment outlining the minimum conditions and entitlements of each form of employment. Institutional factors influence the demand and supply of non-traditional work.
- Demand side factors that may explain the existence and growth of non-traditional work include:
  - A need for firms to ensure a more flexible workforce in response to changing product market conditions; and
  - A need to minimise employment costs (recruitment, training and termination). Partly because of institutional factors, firms can lower employment costs by using non-traditional workers in roles that do not require ongoing, specialised skills.
- Supply side factors explaining non-traditional work and its growth include:
  - Worker preferences for greater autonomy and flexibility in choosing their duration and hours of work;
  - A regulatory framework that provides people with financial incentives to choose non-traditional work over traditional work; and
  - The selection of non-traditional work as a stepping stone from unemployment to ongoing employment.
- The prominence of demand and supply side factors in explaining non-traditional work is difficult to ascertain and is likely to depend on the relative bargaining strength of workers and employers. For example, workers are more likely to secure a form of employment that meets their work preferences if they have skills that are in high demand.

Reasons explaining the existence of non-traditional work have been examined in previous studies and can be placed into three categories: demand, supply and institutional factors.

Previous research has mainly focussed on demand side factors, that is, the reasons why firms may choose non-traditional workers (Houseman 2000). A commonly

cited reason is a firm's need for a more flexible workforce to respond more easily to changes in product market conditions.

Supply side factors, that is, workers' relative preference for non-traditional work, are less commonly cited as reasons explaining the existence of non-traditional work. Supply side reasons include the increased labour force participation of females and students, with both groups thought to prefer more flexible working hours than ongoing employment offers.[10]

Demand and supply factors are seldom separate from institutional factors, which include the regulatory and workplace relations environment of firms. The institutional framework shapes the minimum conditions and entitlements that firms provide to workers under different forms of employment, which then leads to demand and supply being affected:

> Labour market economists understand labour market supply as the outcome of workers' preferences between paid work and leisure. But this choice is in fact conditioned by institutional arrangements that shape the hours and forms of employment on offer. These include workplace conditions and traditions, and industrial awards and agreements. (Pocock et al. 2004b, p. 23)

The first section of this chapter contains an analysis of why firms may choose to employ non-traditional workers. In the second section, reasons explaining why workers may prefer non-traditional work to ongoing work are examined. The way in which institutional factors interact with demand and supply factors is considered within each of these sections. The chapter concludes with a summary of the reasons that explain the existence of non-traditional work in the Australian labour market.

3.1 Demand for non-traditional work

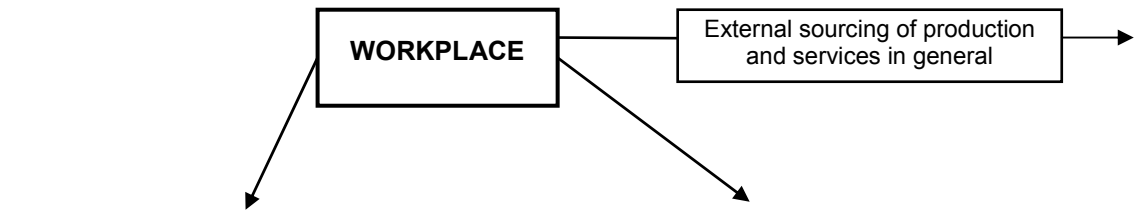
The labour input choice facing a firm is depicted in figure 3.1, adapted from Watson et al. (2003). First, the firm may outsource the whole production process to another firm. Second, it may outsource its supply of labour services only, by using external sources of labour. Third, it may use 'in house' labour that it employs directly. Under the third option, the firm has a choice between ongoing, casual and fixed-term employees. Under the second option, it chooses between labour hire employees[11] or

10 Supply side factors can also influence the choice between different *types* of non-traditional work. Reasons why workers may opt for casual employment are mentioned in Pocock et al. (2004b). Waite and Will (2002) consider possible supply side reasons explaining fixed-term employment.

11 Labour hire employees can have most of the characteristics of ongoing, fixed-term or casual employees who are hired by the firm directly.

self-employed contractors (dependent or independent). Only ongoing employees employed directly by the firm are regarded as traditional employees (the shaded cells in figure 3.1). For each source of labour, direct or external, work arrangements can be varied to specify dimensions, such as hours worked, time in lieu and overtime.

Figure 3.1 **Labour input choices facing an employer[a]**



	DIRECT EMPLOYMENT RELATION				EXTERNAL SOURCING OF LABOUR					
	DIRECT EMPLOYEES				LABOUR HIRE AGENCY				SELF-EMPLOYED INDIVIDUALS	
	Ongoing	Fixed-term	Casual		Casual	Ongoing	Fixed-term	Dep. Cont.	Ind. Cont.	Dep. Cont.
Full-time				Casual pool						
Part-time										

a Shaded cells denote traditional forms of employment. **Dep. Cont.** Dependent contractor. **Ind. Cont.** Independent contractor. **Casual pool** A group of casual employees which an employer can draw labour from, either directly or indirectly.

Source: Adapted from Watson et al. (2003).

Some authors interpret a firm's preference for using particular forms of employment as an attempt to shift the inherent 'risks' of employment to other parties (Watson et al. 2003; Buchanan 2000). These risks can be categorised as follows:

- The risk of having to provide workers with continuing employment when their services are no longer required.
- The risk of workers not completing the tasks that they have been engaged to carry out.
- The risk of meeting the obligations associated with being a person's legal employer.

Non-traditional forms of employment can mitigate some or all of these risks. How much of the risks can, in practice, be shifted to the firm's workforce will be partly determined by the relative bargaining power of employers and workers, within the existing institutional framework.

It is possible to recast the approach of Watson et al. (2003) and Buchanan (2000) in terms of the costs and benefits employers face when using particular forms of employment. As the balance of costs and benefits change, depending on the type of worker employed, and on the nature of the production task at hand, employers opt for a particular combination of traditional and non-traditional work. Some of the costs and benefits associated with different forms of employment, and how they vary, are now considered. For ease of exposition, all sources of labour in figure 3.1, except dependent and independent contractors, are categorised as 'employees'.

Costs of employment to a firm

The costs of using an employee or a contractor can be categorised as:

- recruitment, selection and administration of the contract;
- wages and other benefits;
- training (for employees);
- supervision and monitoring; and
- potentially, termination (for employees) and enforcement (for contractors).

Institutional arrangements and other factors lead to the above costs varying across forms of employment, thus affecting the demand for non-traditional workers, relative to that for traditional workers.

Recruitment, selection and administration

When a firm is considering hiring a worker, it may have regard to the negotiation and recruitment costs involved.

The costs of negotiating an ongoing employee's employment contract are usually small. Terms attached to the position on offer are typically set out in collective agreements or awards, with little scope for individual negotiation.[12]

[12] An exception might be the negotiation of Australian Workplace Agreements, but they cover only a small proportion of the employee population.

The negotiation costs associated with hiring a self-employed contractor can be greater than for an employee. The relevant contract is likely to include details of the quantity and quality of services expected from the contractor. It is expensive to negotiate a contract if the desired output is more complex, if there is an uncertain demand environment, or if the contract is of a long duration (Glover et al. 2000). These factors increase the number of contingencies that have to be covered in a contract, which increases transaction costs. As transaction costs rise, a firm is less likely to employ a self-employed contractor, all else equal.

The recruitment costs from directly hiring ongoing, casual and fixed-term employees are usually similar.[13] They are the fixed costs of advertising and of interviewing and screening potential candidates. 'If recruitment costs are a fixed amount per worker hired, then the amortized hourly costs of recruitment decline continuously with hours worked over the duration of the job' (Dawkins and Norris 1990, p. 159). Therefore, when jobs are of short duration, the fixed cost will be difficult to amortise. Conversely, when outsourcing a position to a labour hire employee, a firm does not incur a fixed recruitment cost. Instead, the cost of recruitment is borne by the agency and apportioned to the firm over time (box 3.1).

Institutional arrangements governing recruitment may give employers more flexibility in hiring certain types of workers. For example, an ongoing position may have to be formally advertised, whereas it may not be for non-traditional positions. In another example, Australian public service rules prohibit the employment of persons who are not Australian citizens as ongoing employees, but permits them to be hired under other forms of employment (for example, as fixed-term employees).

[13] Some employers offer casual contracts verbally because casual employees are often required on an ad hoc basis, and for only a short duration. In such cases, recruitment costs for casual employees are likely to be smaller than for ongoing employees.

Box 3.1 **Labour hire can reduce recruitment and administrative costs**

According to an Australian survey by Brennan et al. (2003), 22 per cent of firms use labour hire most frequently to either achieve thorough recruitment or to outsource the administrative burden of employment. Using a labour hire agency can help firms to minimise the cost of recruitment. This will be of particular benefit to firms when workers are only needed for a short period.

A labour hire agency is responsible for identifying workers with relevant skills and incurs a cost as a result. This cost is incorporated in the hourly rate that the client firm pays to the agency. That is, the hourly rate reflects a worker's wage rate and a small proportion of the administrative and recruitment costs that were incurred by the agency. In this case, the (effective) cost of recruitment for the firm is variable. In contrast, undertaking recruitment itself requires a firm to incur an immediate, one-off fixed cost, which is then amortised over the length of time the worker is employed. Therefore, labour hire workers will be preferred for:

- Temporary jobs — It is more expensive to amortise the fixed cost of recruitment over time for jobs of short duration. Brennan et al. (2003) find that replacing temporarily absent employees is the most frequent reason for using labour hire employment for 17 per cent of labour hire users.
- Smaller firms — Recruitment agencies might achieve economies of scale in identifying suitable workers and handling administration costs. A small firm, which only requires small numbers of additional staff, will find it more difficult to achieve this (Glover et al. 2000).

Sources: Brennan et al. (2003); Glover et al. (2000).

Wages and other benefits

The wages and benefits paid by an employer vary, depending on the form of employment chosen. For example, a self-employed contractor is paid an all-inclusive fee for services provided. In contrast, an ongoing employee is not only paid a wage, but usually receives other benefits such as leave, employer superannuation and training.

In theory, the overall cost of a worker's wage and other benefits should be equivalent to the all-inclusive fee charged by a self-employed contractor who performs the same task. If self-employed contractors could supply a service at a lower overall cost than employees, then the demand for self-employed contractors would rise and, in turn, push up their price. This process would continue until the

cost of hiring a self-employed contractor was equivalent to that of hiring an employee.[14]

Assume a firm decides to hire an employee rather than a self-employed contractor. The value of wages and other benefits provided to traditional and non-traditional employees are, in theory, also equivalent. Although total benefits may be equivalent, the form that they take can vary, depending on the form of employment considered. For instance, many casuals do not receive leave and other entitlements. To compensate for this, clauses in awards and agreements often provide for a 'casual loading'. This loading provides casual employees with a higher wage rate than ongoing employees, usually around 20 per cent higher (May et al. 2005).

If worker benefits are not equivalised across different forms of employment, then firms may be able to exploit this to realise cost savings. For example, if the cost of the loading from employing a casual is less than the cost of entitlements a casual worker forgoes, then a firm could realise labour cost savings by employing more casual employees.[15]

Firms may be able to save on wage related costs by reducing their superannuation obligations to non-traditional workers. Dawkins and Norris (1990) claim that an ongoing worker who uses all of his or her leave entitlements[16] and is paid superannuation is more costly than a casual worker who is not paid superannuation (this is not the case with all casual workers). Ongoing employees covered by a collective agreement are likely to receive superannuation, regardless of hours worked. However, firms are not obliged to pay superannuation for employees if they are under 18 years of age and work fewer than 30 hours per week, or if they earn a low income (ATO 2005).[17] Therefore, if a firm's collective agreement does not cover casual employees, that firm could make superannuation savings by employing young workers as casuals for only a few hours per week. In 2000, over 50 per cent of workers aged 15–19 received no superannuation from their employer. Workers who earned less than $20 000 per year, casuals and other employees without leave entitlements were also less likely to have received superannuation (ABS 2001).

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14 Although, in a competitive labour market, the equilibrium costs of a contractor and employee are equivalent for a firm, the take-home pay of a worker may differ, depending on whether he or she is classified as an employee or a self-employed worker (box 3.4).

15 Watson (2005b) estimates that, after taking into account their loading, female casual employees are underpaid by about 10 per cent, compared with female ongoing employees.

16 This includes sick leave which, in practice, may not be used in full. The less sick leave a person takes, the lower the cost of employment to the firm from employing an ongoing worker.

17 Workers who earn less than $450 per month are not entitled to compulsory superannuation payments from their employer.

Firms may also be able to make labour cost savings if they can exclude lower productivity workers from collective agreements. Hiring lower skilled workers may be costly for the firm if they are covered by the same collective agreement as higher skilled workers. Under the collective agreement, there may be across the board wage rises, which are based on the productivity improvements of higher skilled workers. In this case, the wage rises of lower skilled workers will exceed their productivity growth. Thus, the firm may prefer to exclude lower skilled workers from collective agreements by hiring them as non-traditional employees (Glover et al. 2000).

Training and equipment

The cost of training may influence the form of employment offered by employers. Training costs are typically higher for a firm when the skills obtained are firm-specific (Norris 1996). Firm-specific skills are those relevant to only a limited number of workplaces or the firm employing the worker. In contrast, general skills can be applied in a wide range of jobs. A firm is more likely than an employee to cover the cost of acquiring firm-specific skills, because these skills have little value to an employee who leaves.[18] In contrast, generic skills are more likely to be paid for by the worker, as these skills retain their value outside the firm.

The higher the training costs for a firm, the greater the opportunity cost to a firm when a worker leaves. According to Hall et al. (2000), employers bear a risk when investing in training because an employee may be poached by a rival firm. Employers have a few options to limit this risk. First, employers may prefer to hire ongoing employees where training costs are high, as ongoing workers are required to give notice when resigning. Departing workers may be able to transfer some of their skills to other workers before leaving. By contrast, non-traditional workers can leave their job more easily, making it more difficult to transfer their skills. An alternative strategy is for firms to offer workers with high firm-specific skills above-market wages, to reduce turnover (Houseman 2000).

Hall et al. (2000) suggest that, as workers become more mobile, firms may simply avoid investing in training, with workers increasingly expected to provide for their own training. They find that employer provided training is much less for non-traditional workers, compared with ongoing workers. Employers may reason that casual employees are not worth the training investment, because they may not work as many hours as ongoing employees, or are not expected to be with the firm

[18] Hall et al. (2000) also find that employers will make a more significant contribution to training costs where the skills needed are of a high level, or in short supply.

for as long as ongoing employees. This would make firms more likely to use casuals when little training is required.

A worker's equipment requirements could influence a firm's decision to hire an ongoing worker or a self-employed contractor. The average total cost of a capital input that is required only periodically could be less if the input is provided by a self-employed contractor rather than in-house. If the firm requires the services of that equipment only occasionally, it will be idle for long periods of time, and will not be easily amortised. By contrast, a self-employed contractor may be able to use it for other jobs, thus resulting in a lower equipment cost (per unit of output) to the firm.

Supervision and monitoring

Supervision costs are those incurred by the firm from directing the work of employees. They are likely to be the same across different forms of employment. For a self-employed contractor, supervision costs are embodied in the cost of defining the terms of the contract.

Costs are also incurred from having to monitor workers' output. In most cases, monitoring costs are likely to be similar across different types of worker. When it is difficult to monitor output, however, there are reasons why firms may prefer to use non-traditional workers. For example, if non-traditional workers perceive that they can be fired at any time, or believe that performing well could lead to an ongoing position,[19] they are likely to exert more effort, even without close monitoring.

Ongoing workers often have a probationary period, during which their output is monitored. When monitoring is difficult, a probationary period may not be of sufficient length to assess a worker's productivity accurately. Therefore, employers may prefer to hire non-traditional workers and screen them at length. They might also use non-traditional work initially to screen a worker who is considered to be a potential risk.[20] Employers 'may be willing to try out less-qualified candidates through a temporary help agency and then hire them as permanent employees if they prove themselves during a trial period' (Houseman and Osawa 2003, p. 204).

19 See also section 3.2. Workers may view non-traditional work as a stepping stone to ongoing work.

20 For example, a person who has been unemployed for a long time.

Termination costs

The cost of terminating the contract of an ongoing employee can be greater than that of a non-traditional employee. In organisations with more than 100 employees, ongoing workers can lodge claims for unfair dismissal, or may be entitled to redundancy pay if they are retrenched. Freyens and Oslington (2005, p. 5) estimate that the average cost to an employer of an uncontested unfair dismissal is $3 044, or higher if the claim has to be settled through conciliation or arbitration. In contrast, some non-traditional workers (for example, casuals) can have their contract terminated at short notice without compensation.[21] According to an Australian survey by Harding (2002), unfair dismissal laws make firms more likely to hire casual and labour hire employees. In the US, Autor (2000) found that limits on the discretion of employers to terminate workers, imposed by 'unjust dismissal' legislation, explained 20 per cent of the growth of labour hire employment between 1973 and 1995.

When performance is difficult to measure, an employer wishing to fire a worker has to make a subjective assessment. An ongoing worker has a greater chance of recourse through unfair dismissal if termination is based on a subjective assessment. By contrast, a casual worker has no such recourse, unless dismissed unlawfully. For a firm that needs to alter the size of its workforce regularly, the ability to shed workers without incurring termination costs, such as unfair dismissal payments, will also be of benefit.[22] Other things equal, firms' preference for non-traditional work increases as termination costs rise.

Fixed-term employees have entitlements and conditions similar to those of ongoing employees (Watson et al. 2003). One important difference between fixed-term work and other forms of employment is that fixed-term work has a predetermined duration. Therefore, it is likely that firms prefer using fixed-term employees for one-off jobs where:

- workers will be of no further use to the firm upon the job's completion; and
- the costs of termination are potentially large.

Such jobs can include highly specialised positions, such as those found in higher education (box 3.2).

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21 Some casuals, whose employment satisfies certain criteria are, in effect, regarded as ongoing employees and are, therefore, protected by unfair dismissal legislation (see chapter 2).

22 Amendments to the *Workplace Relations Act 1996* introduced by the Work Choices legislation rule out the possibility of an unfair dismissal claim by employees laid off for operational reasons. This might reduce the use of non-traditional workers as a means of avoiding potential unfair dismissal payments.

Box 3.2 **Using fixed-term employment for specialist jobs: the case of higher education**

Australia has traditionally had a large proportion of fixed-term workers in higher education, averaging around 30 per cent (DEST 2003). This share is much higher than that of fixed-term workers economy-wide (see chapter 2). This suggests that, compared with other sectors, higher education has characteristics which make it suitable for fixed-term employment. Two reasons that explain the use of fixed-term employment in general are:

1. carrying out one-off or specialist tasks and services; and
2. undertaking special tasks for which funding is only expected to be available for a limited period (Romeyn 1994).

These reasons are likely to be applicable to higher education. For some institutions, course offerings depend on student demand, and research funding is usually disbursed for a fixed duration (Glover et al. 2000). Fixed-term employees will be preferred for research positions that depend on funding with a limited time horizon. Indeed, the specialised, highly skilled nature of some academic research is likely to preclude the use of any type of employee other than a fixed-term employee, for a number of reasons:

- Ongoing employees will not be preferred, because their specialised skills will not be transferable to other research projects after completion of their jobs. Using a fixed-term employee avoids having to pay any retrenchment and termination costs. Furthermore, it is considered more difficult to terminate poorly performing academic employees than employees in most other sectors (Glover et al. 2000).
- Casual and labour hire employees can usually resign their position at short notice. Should that occur, it would be difficult to find a suitable replacement for a specialised, highly skilled worker. Therefore, fixed-term arrangements will be preferred, because they provide greater certainty of retaining a worker for a specified amount of time.

Sources: Romeyn (1994); DEST (2003); Glover et al. (2000).

Finally, there may also be psychological costs arising from terminating the employment of workers. If it is deemed that a worker is not suitable and should not be hired permanently, a manager has to inform the worker of this. It might be more difficult, psychologically, for a manager to fire an ongoing employee, than to not rehire a labour hire employee:

> Using temporary help [labour hire] agencies as a screening device allows managers to side-step the unpleasant task of firing new employees who display poor or mediocre performance. Arguably, managers are less likely to fire a mediocre employee than they are to 'not rehire' a mediocre agency temporary, short-term hire, on-call, or part-time worker on as regular full-time staff. Thus, the result may well be a more productive staff. (Houseman 2000, pp. 11–12)

There may also be a negative impact on staff morale and productivity if workers witness their firm firing ongoing colleagues.

The relationship between labour costs and a job's skill level and frequency

The various costs of employment considered above influence a firm's decision regarding which form of employment to use. The fixed costs of hiring a worker, including recruitment, training and termination, are usually proportional to the skill level of the worker; a more intensive recruitment effort occurs for higher skilled workers, because mistakes in staffing will have greater repercussions; more on-the-job training is required for higher skilled workers because their tasks are more complex (Rees 1973); and termination is more costly, whether it is initiated by the firm (possible redundancy pay or unfair dismissal claims) or the worker (new staff have to be recruited and trained).

Greater fixed costs of recruiting, training and terminating higher skilled workers might create a dichotomy in the labour market conditions employers provide for higher and lower skilled workers. For example, it might explain why some entitlements differ between ongoing work and non-traditional work. Dual Labour Market (DLM) theory provides a skill based explanation for the emergence of a gap in work conditions (box 3.3).

Box 3.3 **Can non-traditional work be explained in terms of dual labour market theory?**

Dual labour market (DLM) theory suggests that higher skilled jobs are associated with permanent, ongoing employment. In contrast, lower skilled jobs are characterised by temporary, casual positions. DLM theory has three components:

1. There are two sectors in the labour market: a primary sector with stable employment and high wages, and a secondary sector which has low paid jobs and high turnover.
2. Entry and wage determination processes are different in each sector: the primary sector has better defined internal labour markets than the secondary sector.
3. Mobility between the sectors is limited: in particular, workers in the secondary sector struggle to move into the primary sector. This results in a segmented labour market.

Usually, it is assumed that if workers improve their human capital (for example, through training or education), then they increase their productivity at work. However, according to DLM theory, worker productivity is a function of the job itself, not human capital.

In the primary sector, jobs require the development of task-specific skills and on-the-job training. The turnover cost of a worker with firm-specific skills is high, so there are well defined advancement ladders, with many promotion opportunities.

In contrast, jobs in the secondary sector do not require many skills. There is little need for training and not much scope for advancement. Employers have no desire to maintain ongoing working relationships. As a result, employment is not as stable as in the primary sector and high labour turnover occurs. Finally, since workers in the secondary sector have little opportunity to develop their skills, they find it difficult to gain the experience necessary to move into the primary sector.

Consistent with workers being immobile between markets, Mitchell et al. (2005) suggest that on-the-job search behaviour is different in each sector. Workers in the primary sector search to enhance their career prospects (an intrinsic motivation). By contrast, the search motivation of workers in the secondary sector is extrinsic (fear of future job loss). Using Australian data, the authors find that only intrinsic motivations lead to better quality jobs.

There is more empirical evidence of labour market segmentation in Australia. Drawing from a range of job characteristics (including on-the-job training, leave entitlements and wages), Flatau and Lewis (1993) find that certain occupations can be clustered into different labour market segments. Song and Webster (2003) also find that the mobility of workers between sectors is greater for skilled than unskilled workers.

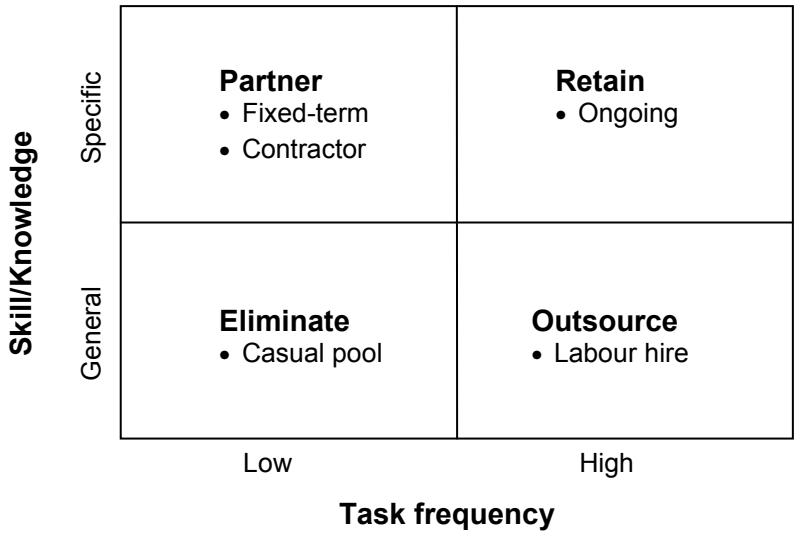
The evidence and theory of DLM, summarised above, has led to some claims that casual employment, in particular, may belong to a secondary sector in Australia (Norris 1996). Casual employees usually receive less training than ongoing employees and experience high turnover. They are also less skilled, on average (see chapter 4).

Sources: Norris (1996); Mitchell et al. (2005); Song and Webster (2003); Flatau and Lewis (1993).

Dual Labour Market theory links the skill level required to fill a position to the form of employment governing that position. However, it provides little information on how the frequency of tasks performed might impact on the type of worker and form of employment an employer will select.

To illustrate this point, figure 3.2 expresses an employer's labour sourcing strategy in terms of both the skill level of the job and how frequently it is performed.[23] Each of the four sourcing options (partner; retain; eliminate; outsource) is associated with specific forms of employment.

Figure 3.2 **Employer options for labour sourcing**



Source: Adapted from Curtain (2005).

The 'partner' option is suited to jobs that require specialised skills, but are not performed regularly. A firm might prefer using a fixed-term worker for these jobs. It might also outsource such jobs (using a self-employed contractor), but maintain a close working relationship with the contractor because the job undertaken may provide learning opportunies for the firm's own employees.

The option to 'outsource' is directed at regular tasks which require general knowledge, and are not likely to be associated with the firm's core activities. They may be common to many industries (for example, equipment maintenance and

23 This framework (from Curtain, 2005) was originally used to explain outsourcing decisions at a department in the former BHP's Newcastle steelworks.

payroll). By outsourcing via a labour hire firm, cost savings might be realised because the labour hire firm should be better placed to achieve economies of scale.

The 'retain' option is suited to jobs performed regularly which require specialist, firm-specific knowledge. These skills are likely to be difficult to replace and would make employers more willing to offer stable, ongoing employment and conditions to retain workers (in accordance with DLM theory).

Finally, the 'eliminate' option is aimed at jobs which are performed infrequently and require generalist skills. A firm might incorporate these jobs into the tasks of other workers. When this is not possible, a firm may draw from a pool of casual workers, or use temporary labour hire, to perform work on an ad hoc basis.

Benefits of employment to a firm

The more productive workers are, the greater the benefits to the firm, other things equal. One way to increase productivity is to have good monitoring and screening mechanisms in place. Another way is to use non-traditional workers selectively, to match the firm's labour requirements more precisely.

Non-traditional forms of employment often allow more flexibility than ongoing employment can provide. Greater flexibility means a firm is better able, for example, to adjust worker hours and other arrangements to match production to demand. According to survey evidence reported in Hall (2002), flexibility in meeting fluctuations in demand was nominated as the most significant advantage from outsourcing work by 30 per cent of the firms that did this.[24]

When market conditions are volatile, such as in retail, a workforce comprising casual or labour hire employees is likely to be more productive than a workforce with only ongoing full-time or part-time labour:

> If an employer employed sufficient full-time permanent employees to meet the peak demands there would be a substantial amount of time when part of that workforce would not be needed. If, however, it is possible to vary the workforce over the week to meet the peak demands by the use of casual employees, labour productivity can be much higher. Permanent part-time employees provide some flexibility in this respect, compared with permanent full-time employees, but casuals provide the greatest flexibility. (Dawkins and Norris 1990, p. 160)

[24] In the survey, outsourced work is defined as the use of self-employed contractors and labour hire workers.

An increase in the operating hours of service industries (such as retail and banking), beyond those previously considered standard in Australia, is likely to have enhanced the need for employers to use a more casualised workforce (Norris 1996).

As well as having to adjust the size of their workforce because of volatile market conditions, firms might also require additional, temporary staff for other reasons; for example, to fill a vacancy until an ongoing hire is made, and to cover employees who are absent or on leave. In such cases, a firm is more likely to use non-traditional workers, such as labour hire and casual employees, rather than ongoing workers. Casual and labour hire employees have no set job duration, which gives an employer greater flexibility, for example, if it is unaware of how long ongoing staff will be absent for.

The size of a firm may affect whether or not it can profitably use non-traditional work to address workload fluctuations. A large firm may be able to arrange for other staff to cover for absences more easily than a small firm can. This would make the former less likely to resort to non-traditional work to accommodate staff fluctuations.

The productivity of non-traditional workers, relative to that of traditional workers, may be partly dependent on the ways in which each type of labour is combined with physical capital as part of the production process. Technological progress, which alters the characteristics of capital, may also alter the benefits firms derive from non-traditional work. It has been suggested by some that introducing new technology would increase the need for temporary workers, such as labour hire employees.[25] However, modelling results reported by Glover et al. (2005) do not provide strong support for this relationship. Instead, new technology appears to be a substitute for labour hire employment. A possible explanation given for this is that technology may require higher skilled workers, a category in which labour hire workers are underrepresented (see chapter 4).

Finally, incentives to use non-traditional workers may be more prosaic. A manager might use non-traditional labour to lower the head count of full-time or ongoing staff in the organisation. Anecdotal evidence suggests that managers sometimes use non-traditional workers, especially labour hire, to bypass head count limits imposed during an office restructuring (Houseman 2000). Managers may also choose this if their productivity bonuses are inversely related to the number of ongoing staff.

[25] See Glover et al. (2005) for a review of the literature.

Summary of factors affecting the demand for non-traditional work

The analysis above has highlighted the diversity of factors that may influence a firm's decision to employ either an ongoing or a non-traditional worker to fill a position. The main factors which are likely to influence a firm's decision in this respect are recapitulated for each form of employment in table 3.1.

Table 3.1 **Main reasons explaining the demand for each form of employment**

Form of employment	*Main reasons why firms prefer form of employment*
Labour hire	• Job known to be of short duration. Labour hire incurs a lower initial recruitment cost than other forms of employment. • Outsourcing regular, lower skilled jobs, that are not core activities of the firm. A labour hire agency may be better placed to achieve economies of scale. • Meet peak product demands.
Self-employed contractor	• Output is easily specified: cost of negotiating a contract is lower, and it will be easy to verify if job is done satisfactorily. • Equipment is required, but only periodically: a self-employed contractor will have a lower average cost of production than a firm, because a self-employed contractor can use equipment for other jobs.
Ongoing	• Higher skilled positions: costs of recruitment, training and termination are more expensive for higher skilled labour. Therefore, cost of replacing a worker is higher. In non-traditional roles, such workers could leave their position more easily (less notice is required for casuals), and create costs for the firm.
Fixed-term	• Specialised workers: these workers may only be needed for a specific task, with their job-specific skills unlikely to be of benefit once the task is complete. • One-off tasks that have a known duration.
Casual	• Fluctuating market conditions: a casual employee who is on-call to work only when needed will be more productive than a full-time worker. • Short-term jobs: the firm can hire and terminate workers without incurring expensive recruitment and termination costs.

3.2 Supply of non-traditional work

In this section, reasons why people may prefer non-traditional work to ongoing employment are explored. Such reasons include achieving non-work objectives and using non-traditional work as a stepping stone to ongoing employment.

Labour market theory suggests that a person's choice of work is made subject to a desired amount of time spent on non-work activities and subject to the range of forms of employment realistically available. Whether or not workers choose

non-traditional work to achieve a better work–life balance is often debated.[26] Non-traditional work can sometimes provide a better work–life balance than traditional work because it offers workers:

- greater autonomy and flexibility to choose how much and what type of work is done; and
- financial benefits.

The possibility that non-traditional work can act as a stepping stone to ongoing employment for unemployed persons is also cited as a reason why some workers may choose non-traditional work (Chalmers and Kalb 2001; Constant and Zimmermann 2004). For example, rather than remaining unemployed, by undertaking casual work a person may demonstrate to employers that he or she is capable of ongoing work in future.

Work–life balance

Autonomy and flexibility in working hours and employment duration

Self-employed contracting is less regulated than other forms of employment, potentially allowing people more autonomy to achieve their desired work–life balance. For example, some claim that self-employed contractors have greater freedom to choose their hours of work, when to take holidays, who to work for, the type of work they undertake and the rates they charge (Barresi 2005a).

According to a US survey, most self-employed contractors preferred this form of employment for personal reasons (Cohany 1998). For example, most men 'said they worked as an independent contractor because they liked being their own boss' (Cohany 1998, p. 6). In contrast, it was found that people chose to work in other non-traditional forms of employment mainly for economic reasons. For example, it was the only type of work they could find. These results are consistent with studies showing that self-employed persons have a higher level of job satisfaction, on average, than other employees (Benz and Frey 2004; Evans and Sikora 2004).

A preference for autonomy and independence may be partly a matter of family background. Evans and Sikora (2004) found that, in line with overseas studies on the intergenerational transmission of self-employment, a self-employed father was a positive influence on a son or daughter entering self-employment in Australia.

[26] See, for example, Pocock et al. (2004b). Many workers who prefer to work fewer than full-time hours may find themselves restricted to casual work, because it is sometimes the only form of employment offering fewer than full-time hours.

Although other types of non-traditional work do not allow people the autonomy to 'be their own boss', they can provide more flexible work arrangements than traditional work. Some people may prefer to work fewer than full-time hours. Full-time work may not be feasible for students, who seek to fit their availability around their studies (Dawkins and Norris 1990). Parents may prefer to work shorter hours so they can spend time with their children. These groups may view casual work as the best available option to secure flexible employment:

> Casual employees can sometimes gain flexibility on their terms – to control working time and to gain, for example, school holidays off work to be with their children. Many students who need flexible hours and are not building a long-term career appreciate working situations where they can nominate their availability. (Pocock et al. 2004b, p. 23)

Part-time work also offers fewer hours than full-time work. However, casual work may be preferred to part-time work because a casual employee may have greater flexibility to choose when and how much to work. Casual workers can, in some cases, also decline work when asked. Permanent part-time work, which is ongoing and usually has designated work days and holidays, is more prescriptive than casual work.[27]

Compared with ongoing work, non-traditional work can offer workers greater flexibility in choosing the duration of their employment and leave. Once they complete a job, self-employed contractors and fixed-term employees are not restricted with respect to the timing and duration of their next work spell.

The flexibility that non-traditional work can afford workers also extends to the choice of employers. In a reversal of the employer screening mechanism, workers may elect to start work on a casual basis until they are certain that they want to continue the job in an ongoing capacity. In contrast, 'permanent work may carry with it a commitment to a long term employment relation, a commitment which some workers may be unwilling to make' (Dawkins and Norris 1990, p. 161).

The likelihood that non-traditional workers choose their employer or their work arrangements probably depends, in practice, on how scarce their skills are, which affects their bargaining power. For example, there are reports that, in the mining industry, engineers will only provide their services as contractors, even though firms wish to engage them as ongoing employees. Similarly, in the health sector, many nurses will only supply their labour through a labour hire agency so they can

[27] Ongoing, part-time work is likely to offer workers more job security than casual employment, as employers are usually required to give ongoing workers notice before termination. In contrast, casual workers do not require any notice. Therefore, permanent part-time work is likely to be preferred by workers who value job security over flexibility.

pick the hours they wish to work and be paid a higher rate when they work (Buchanan, J., University of Sydney, pers. comm., 14 April 2006). In contrast, many casual employees would prefer to work more hours (Watson et al. 2003), suggesting the benefits of flexibility accrue mainly to their employer.

Financial incentives

Self-employed contracting and casual work provide two examples of how institutional factors can create financial incentives for workers to choose non-traditional work over ongoing employment.

Taxation considerations can make it more profitable for people to work as self-employed contractors than as employees (box 3.4). Other financial incentives favouring self-employment include a range of government programs providing funding and advice toward the creation of small businesses (Evans and Sikora 2004).

As mentioned, casual employees are generally paid a higher wage or salary than ongoing workers, through a casual loading designed to compensate them for the loss of leave and other entitlements. Some employees may prefer less non-wage benefits than offered by ongoing employment, in exchange for a higher salary. For example, a student who works only one or two days a week is likely to receive less than two weeks' annual leave. That student may already have significant holiday breaks from study (for example, after exams). As a result, the leave entitlement may well be less desirable to a student who works short hours, compared with a worker who does not have time off during university breaks. Casual employment may, in such situations, be the preferred form of employment for financial reasons.

Box 3.4 **Tax advantages from working as a self-employed contractor**

Buchanan and Allan (2000) illustrate a situation where a self-employed contractor who is paid less than an employee can earn a higher after-tax pay. This arises because of differences in the tax treatment between an employee and an independent contractor. Some work related expenses, that cannot be claimed by ongoing workers, are acceptable deductions for self-employed contractors. 'The net effect of such deductions usually halves the average rate of tax payable' (Buchanan and Allan 2000, p. 51).

To determine whether or not self-employed contractors are entitled to certain deductions not available to employees, contractors make a self-assessment, in accordance with the *Alienation of Personal Services Income Act 2000* (Cwlth). Unless a 'results test' puts them clearly in the independent contractor category, workers must be able to show the following to prove that they are not, in effect, an employee:

1. they do not receive 80 per cent or more of their income from one client; and
2. (a) they receive income from two or more unrelated clients; or
   (b) they have employees or apprentices; or
   (c) they have business premises separate from those of their employers.

Employers also have a legal responsibility to assess whether their workers are employees or independent contractors. Under tax law, this has implications for the withholding of income tax by the employer. In order to differentiate between employees and contractors, employers must look at whether a person:

- is paid for results achieved or time worked;
- is responsible for providing the materials and equipment required to do the job;
- is free to delegate work to other entities;
- has freedom in the way the work is done;
- provides services to the general public and other businesses;
- is free to accept or refuse work;
- is in a position to make a profit or loss; and
- receives paid leave.

Source: Buchanan and Allan (2000); ATO fact sheets.

Stepping stone to ongoing employment

The acquisition of work experience and on-the-job training in non-traditional work may provide a stepping stone to ongoing employment for some workers. On the demand side, this effect occurs because non-traditional forms of employment may be used as a screening device by employers. Conversely, 'on the supply side, such

jobs offer workers a chance to broaden workforce skills and improve employability' (Tunny 2003, p. 3).

An example of the broadening of workforce skills is when persons studying a field in which they have no prior work experience, choose to do casual work in that field to enhance their future ability to obtain a full-time job.

Non-traditional work may also be used to facilitate the transition from unemployment to ongoing employment. For example, persons unemployed for a long time might be wary of being perceived as a risky hire by an employer. They may therefore accept a non-traditional job offer to prevent that perception, with positive consequences for their long-term probability of securing ongoing employment. Such a strategy has been shown to be effective for casual employees (Chalmers and Kalb 2001) and for self-employed workers (Constant and Zimmermann 2004).

However, the possibility exists that the first of these transitions (unemployment to non-traditional work) will not be followed by the second (non-traditional work to ongoing employment). Kryger (2004) has found that the prevalence of casual employment in Australian States and Territories is positively related to these jurisdictions' unemployment rates. Based on this result, he argues that casual employment is largely involuntary work, motivated by a relative scarcity of ongoing employment. If this is true, then any stepping stone effect of casual employment is likely to be limited.

The stepping stone effect would also be weakened for self-employed contractors if, as hypothesized by some, self-employment is the only realistic option for marginalised workers (those whose parents had low-skill jobs, and who are themselves poorly educated, especially females). However, Evans and Sikora (2004) found no evidence in support of this hypothesis in Australia.

If the stepping stone effect is inoperative, then people may cycle between a succession of non-traditional jobs, with no real opportunity to exit that cycle.[28] Testing this scenario is problematic because many workers may prefer to remain in casual employment (Tunny 2003). Nevertheless, there is evidence that, for young workers, casual jobs do lead to full-time positions in the longer term, while a history of unemployment is a strong predictor of future unemployment (Gaston and Timcke 1999).

Finally, non-traditional work may act as a stepping stone *from* ongoing employment. People reaching retirement age may prefer fewer than full-time hours.

[28] As predicted by the DLM theory described above.

Casual and part-time jobs might allow near-retirees to reduce their working hours before leaving the labour force altogether.

3.3 Summary of factors explaining non-traditional work

This chapter has outlined why some firms and workers may prefer non-traditional work to ongoing work, and how institutional factors and market forces shape these preferences. In general, non-traditional work can help firms achieve better production efficiency through greater flexibility in managing their workforce and by lowering costs. Workers are likely to prefer non-traditional work, in some cases, because it represents a more flexible option than ongoing work.

Specific reasons why firms and workers choose non-traditional work vary according to the form of employment considered:

- Casual and labour hire employees:
  - *Firms* can fill temporary positions more easily, and better match working hours to meet fluctuations in demand, than by using ongoing employees.
  - *Workers* have access to more flexible hours than full-time workers, and, potentially, to a stepping stone to ongoing employment.
- Fixed-term employees:
  - *Firms* can ensure specialist workers, who are difficult to replace, are employed for the duration of the task to be completed.
  - *Workers* enjoy the certainty of being employed for a known period of time, and are free to switch jobs upon completion of their contract.
- Self-employed contractors:
  - *Firms* can complete some tasks requiring the temporary use of equipment at a lower cost than if they hired a worker and supplied the equipment themselves.
  - *Workers* enjoy greater autonomy than ongoing workers and may also obtain financial advantages.

It is uncertain whether or not demand or supply side reasons are more prominent in explaining the existence of non-traditional work. The balance of these factors is likely to vary across different forms of non-traditional work. Simpson et al. (1997) suggest that demand side reasons are more important in explaining casual work. An illustration of this might be the increased hours of retail trade requiring workers to be available on demand.

Other forms of non-traditional work, such as self-employed contracting and fixed-term employment, might be more supply side driven. The high degree of job satisfaction reported by self-employed contractors (Cohany 1998; Benz and Frey 2004; Evans and Sikora 2004) suggest that this form of employment is largely voluntary, and fulfils a desire for autonomy and independence in workers. There is also evidence that fixed-term workers have higher overall job satisfaction than ongoing employees (Watson et al. 2003).

Whether non-traditional work is demand or supply side driven also depends on the relative bargaining strength of employers and workers, which is likely to vary across forms of employment. For example, a firm seeking to employ a worker with scarce, specialised skills will have less ability to impose a particular form of employment than a firm dipping into a 'casual pool' to replace a temporarily absent employee.

The next chapter contains an analysis of the characteristics of non-traditional workers. Investigating these characteristics may provide confirmation of the theoretical reasons explaining the existence of non-traditional work discussed in this chapter. For example, by looking at the job satisfaction of different forms of employment, the extent to which non-traditional work is supply side driven may be ascertained.

4 The characteristics of non-traditional work

Key points

- The prevalence of non-traditional work is highest between the ages of 15 and 19, at 70 per cent. It then declines until it reaches a plateau of around 25 per cent between the ages of 25 and 59. From age 60 to 64, the prevalence rises again, to around 40 per cent.
  - In the younger age group (15–24), non-traditional work is made up mainly of casual employees. In the prime working age group (25–54), the combined share of other forms of non-traditional work is as high as that of casual work. Casual employment is once again predominant in the 60–64 age group.
- On the whole, females are more likely to work as casuals, and males as fixed-term employees or self-employed contractors.
- Casual employment and self-employed contracting are more commonly found outside capital cities, and in jurisdictions with smaller populations (with the exception of the ACT), while the reverse applies to labour hire, fixed-term and ongoing employment.
- Casual employment and, to an extent, labour hire employment, are more common in lower skilled occupations. Fixed-term employment, ongoing employment and self-employed contracting are more common in higher skilled occupations.
- Industries that use non-traditional work intensively are usually reliant on casual employment. They are mainly service industries, such as accommodation, cafes and restaurants and retail trade.
- Apart from casuals, most non-traditional workers work full-time. Some, like self-employed contractors, tend to work long hours. The vast majority of casuals work part-time, for reasons mainly related to education.
- Most non-traditional forms of employment report high levels of overall job satisfaction, on a par with that of ongoing employees. Non-traditional workers are not the happiest in relation to job security, but they tend to enjoy a better capacity to achieve work–life balance than ongoing employees.
- Some casuals, such as women aged from 25 to 54 with dependants, and casuals aged 55 and above, express high levels of work satisfaction. By contrast, other casuals, such as prime age males with relatively low levels of education, appear dissatisfied with their employment.

This chapter describes the characteristics of non-traditional work and compares them with those of ongoing (permanent) work.[29] As the most prevalent form of non-traditional work, casual work is the primary focus of this chapter's analysis.

The following analysis uses recent data to illustrate the extent to which traditional and non-traditional work vary with factors including: age; gender; location; occupation; industry; and education. Additional employment characteristics, such as length of service with current employer and preference for more work, are also examined. When possible, the level of satisfaction of employees about aspects of their employment circumstances, such as job security, is considered and linked to worker characteristics.

Data used in this chapter are drawn from:

- the ABS Forms of Employment Survey (FOES) of 2001; and
- the Australian Government's Household, Income and Labour Dynamics in Australia (HILDA) survey of 2003.

In the HILDA survey, employees self-identify as either casual, fixed-term or ongoing employees. Separately, employees are asked if they are employed through a labour hire agency. In this chapter, employees are classified as either casual, fixed-term, ongoing or labour hire. That is, all labour hire employees — whether casual, fixed-term or ongoing — are exclusively classified in the labour hire category.

The FOES 2001 survey is the most recent dataset that allows the characteristics of self-employed contractors to be described (see appendix A). This form of non-traditional work cannot, at present, be identified within the employment categories defined in HILDA. For that reason, data relating to self-employed contractors are mainly presented separately in the remainder of this chapter.

4.1 Does the prevalence of non-traditional work change with the age of a worker?

The proportion of people working as casual, ongoing, fixed-term or labour hire employees in 2003 are presented in five-year age groups in figure 4.1. The data

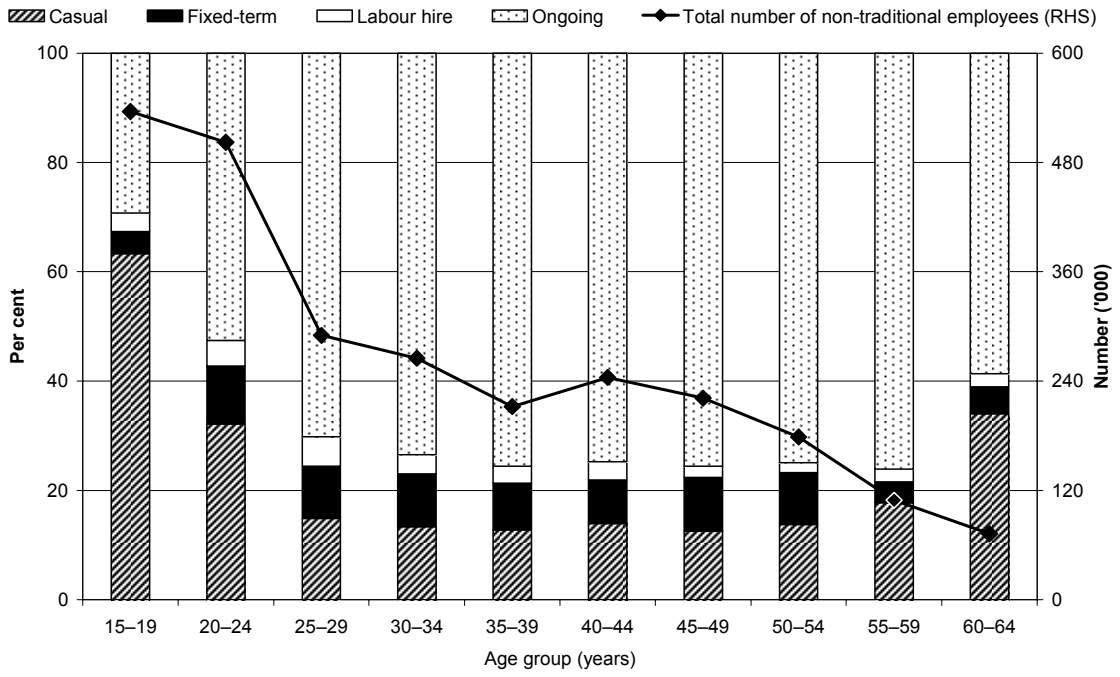
[29] While the HILDA survey does not distinguish between the terms 'permanent' or 'ongoing', the latter term is used in this study, as no job is literally permanent. The terms 'traditional' and 'standard' are alternatives adopted by other authors to denote the same, or a very similar, form of employment. While a single definition of ongoing work is used throughout this study (see chapter 1), modifications of scope are noted as appropriate.

underlying this figure, derived from the HILDA survey, are detailed in appendix B. Because self-employed contractors cannot be identified in HILDA, their prevalence by age is presented in a separate chart (figure 4.2).

Expressed as a proportion of the total employee population in each age group, non-traditional work exhibits a U-shaped age profile (top of the non-dotted segments in figure 4.1). Starting at a high 70 per cent between the ages of 15 and 19, the share of non-traditional work falls rapidly until age 29, after which it remains roughly constant until age 59. It then increases again until age 64, although it does not reach the height recorded in the youngest age group.

Except for a small rebound between the ages of 40 and 44, the total number of non-traditional workers (the solid line in figure 4.1) drops continuously from a high of 500 000 in the 15 to 19 age group, to a low of 70 000 in the 60 to 64 age group.

Figure 4.1 **Employees by form of employment and age group, 2003**

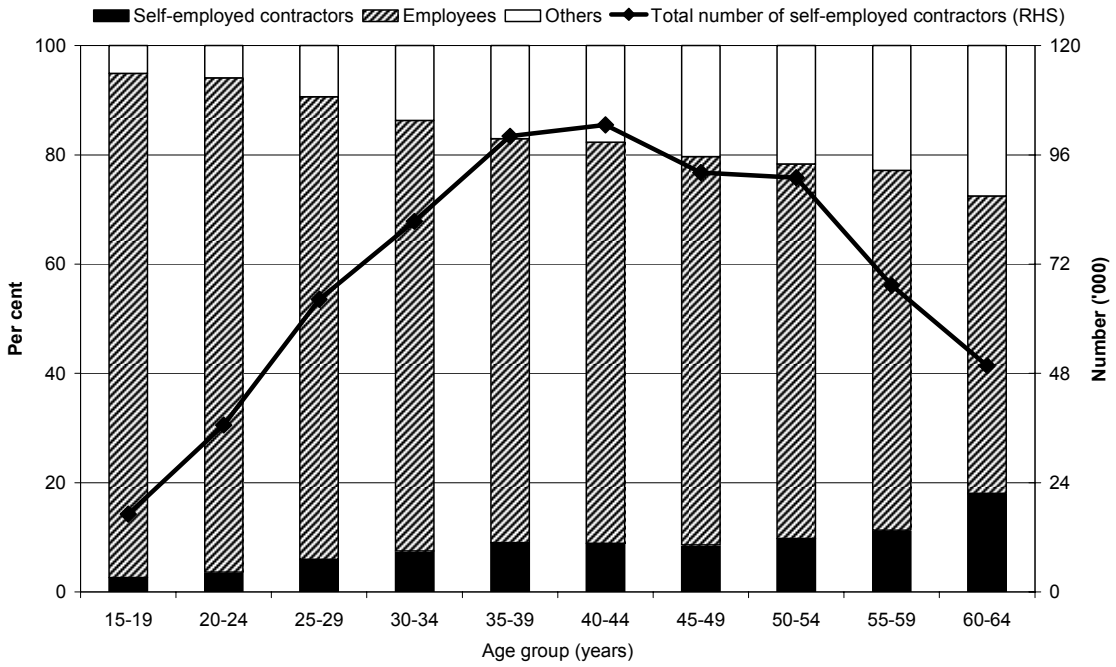


Data source: Productivity Commission estimates derived from HILDA 2003, release 3.0. Refer to table B.1 of appendix B.

Compared with that of employees in non-traditional work (figure 4.1), the age profile of the share of self-employed contractors in the workforce reveals this form of employment to be primarily a mature and older worker phenomenon

(figure 4.2).[30] As a proportion of all employed persons, self-employed contractors increase steadily between ages 15 and 39, plateau somewhat between the ages of 40 and 54, and increase thereafter (black segments in figure 4.2). The total number of self-employed contractors (the solid line in figure 4.2) reaches a peak between the ages of 40 and 44 and declines until age 64, although less rapidly than total employment.

Figure 4.2 **Self-employed contractors by age group, 2001**



Data source: Productivity Commission estimates based on unpublished data from ABS (Forms of Employment Survey, Cat. no. 6359.0) and HILDA 2001, release 3.0. Refer to table B.2 of appendix B.

Considerably fewer people aged 60 and over work, compared with people under 24. Partly because of this, more young people than older people are engaged in non-traditional work, whether as an employee or as a self-employed contractor. However, in proportional terms, non-traditional work is as important for older Australians (54 per cent of workers between the ages of 60 and 64 are engaged in this form of work) as it is for younger Australians (49 per cent in the 20 to 24 age group) (tables B.1 and B.2).[31]

30 When reading the discussion of self-employed contractors in the remainder of this chapter, it should be kept in mind that this group overlaps with both non-traditional and ongoing employees (see chapter 2 and appendix A).

31 These percentages include casual, fixed-term and labour hire employees, as well as self-employed contractors. Neither percentage is fully adjusted for overlaps between the various forms of non-traditional work.

In order to examine in more detail the age distribution of non-traditional work, it is useful to distinguish broadly between 'young', 'prime working age', and 'older' workers. These age groups are defined as: 15–24 (15–34 for self-employed contractors); 25–54 (35–54); and 55–64, respectively.

What are the forms of employment of young workers?

Almost two-thirds of employees (63 per cent) aged 15–19 years worked as casual employees in 2003, while less than half that proportion (29 per cent) worked as ongoing employees (figure 4.1). The relative importance of these two working arrangements reversed for those five years older (20–24), with most employees in that category (53 per cent) working as ongoing employees. The proportion in casual employment halved, to 32 per cent of the total number of employees aged 20–24. These differences are partly a reflection of some tertiary students completing their studies and gaining ongoing employment.

Compared with casual employment, fixed-term, labour hire employment and self-employed contracting are relatively infrequent forms of non-traditional work in younger age groups. By contrast with other forms of non-traditional work, however, self-employed contractors increase steadily in importance until age 35–39 (figure 4.2).

What are the forms of employment of prime working age workers?

Three important characteristics of employees of prime working age, that is, those aged from 25 to 54, in 2003, are:

- a further halving of the proportion of casual employees, compared with 20–24 year old employees, to 15 per cent of those aged 25–29; and
- the dominance of ongoing employment for those aged between 25 and 54, with an average of three-quarters (74 per cent) of prime working age employees employed in an ongoing capacity; and
- the relative stability of the proportions of casual and ongoing employees for those aged from 25 to 54.

In prime working age groups, the proportion of fixed-term employees ranges from a high of 9.8 per cent for employees aged 45–49, to a low of 8.0 per cent for those aged 40–44. The proportion of labour hire employees in the same prime age group gradually declines from 5.4 per cent for employees aged 25–29, to a low of 1.8 per cent for employees aged 50–54. For labour hire employment, 5.4 per cent is the

maximum prevalence reached at any age. For fixed-term employment, this maximum is reached slightly earlier (10.7 per cent between the ages of 20 and 24).

That both fixed-term and labour hire employment reach their peak in age groups when many persons complete their education and embark on a career, may indicate that these forms of employment play a role in assisting some working students in making the transition between casual and ongoing employment. This could occur because fixed-term and labour hire employment provide work experience and on-the-job training, both of which make an employee more productive. In some cases, the transition from labour hire or fixed-term employment to ongoing employment may not involve a change of employer (see chapter 3).

From age 35 to 54, self-employed contractors comprise a fairly stable 9 per cent of all employed persons. That this proportion is higher than at younger ages distinguishes self-employed contractors from other forms of non-traditional work, all of which have reached their maximum prevalence before age 30.

How do forms of employment change as workers near retirement?

For each non-traditional form of employment identified in the HILDA survey, prevalence remains relatively stable until approximately age 59 (figure 4.1). From age 60 onward, the prevalence of non-traditional employment increases, due almost entirely to an increasing proportion of casuals within the group of older Australians who remain employed.

The greater representation of casuals in older age groups occurs in the context of a falling total number of employees. However, the number of casuals does not fall as rapidly between the ages of 55–59 and 60–64 as does the number of ongoing employees (table B.1).[32]

Despite overall numbers that also fall rapidly between ages 50–54 and 60–64 (table B.2), self-employed contracting is the only form of non-traditional work for which prevalence increases continuously and significantly with age. By age 60–64, 18 per cent of those still working are engaged in this activity (figure 4.2).

[32] This should not, however, be interpreted as showing that casual employees have a lower propensity to retire than ongoing employees do. It is possible that many ongoing employees aged between 55 and 59 have become casuals by the time they are aged between 60 and 64 (this possibility is investigated further in box 4.2).

4.2 Do forms of employment differ by gender?

The most important difference within the employee population is between casual and ongoing employees. Casual employees are predominantly female, while ongoing employees are predominantly male (table B.3).

As far as self-employed contractors of all ages are concerned, males are almost three times more represented in that group than women (table B.4).

There are also significant gender differences in the age distribution of workers in non-traditional and traditional employment. This is shown in figure 4.3 as a proportion of the total number of employees employed under each form of employment in each five-year age group.

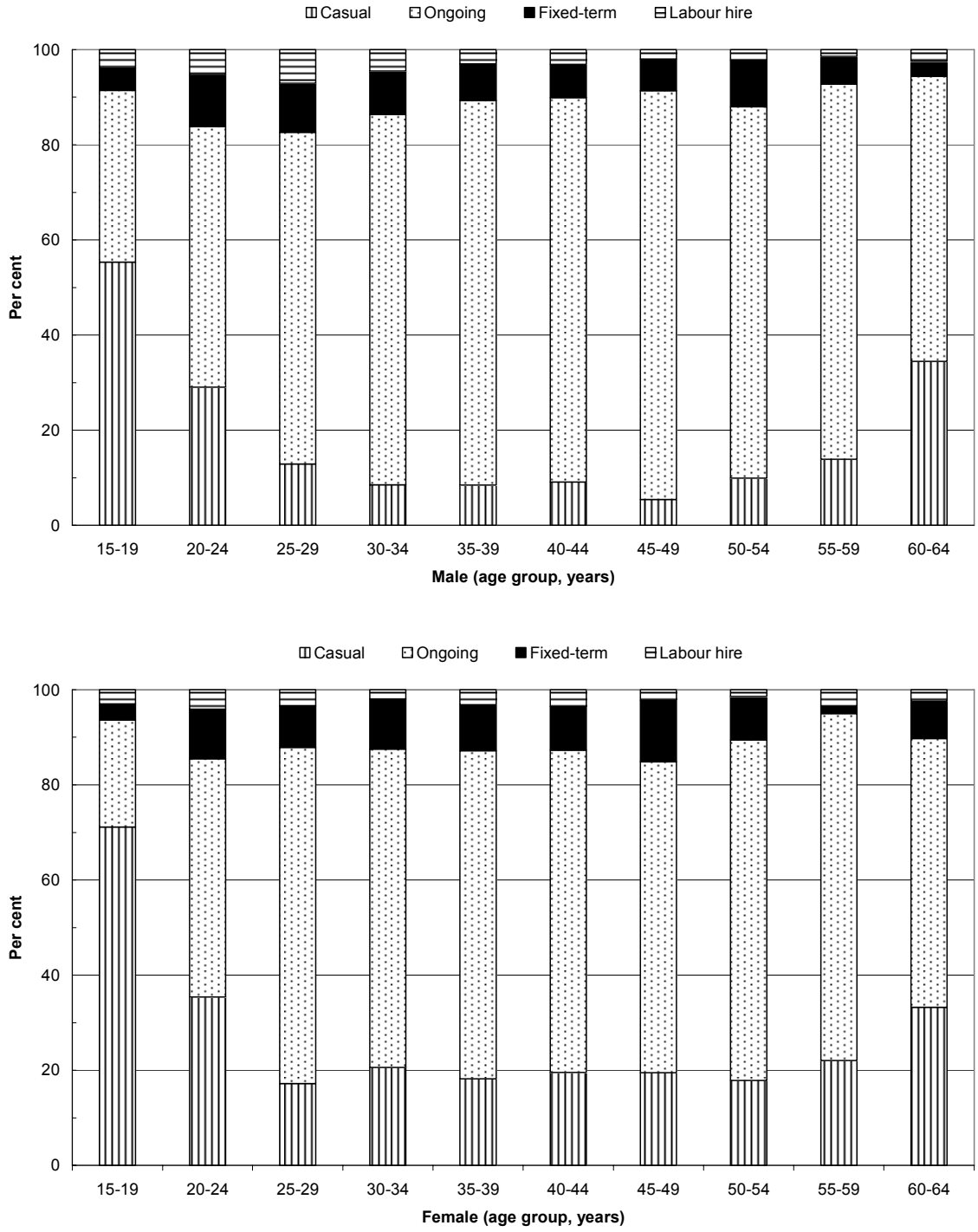
For those beginning their working life in 2003, that is, those aged 15–19, casual employment dominates all other forms of employment for both females and males. For females in that age group, the rate of casual employment is 16 percentage points higher than for males. However, in the 25–29 age group, the rates by gender are similar at around 15 per cent (figure 4.3).

During the prime working years (25 to 54), the prevalence of casual employment among females remains stable at around 18 per cent. For prime age males, however, the rate broadly continues to decline until age 45–49 (when it reaches 5.4 per cent), after which it begins to rise.

While fixed-term employment averages around 8 per cent for both males and females of all ages, its prevalence peaks earlier for males (age 20–24) than for females (age 45–49). By contrast, the prevalence of labour hire employment peaks at approximately the same age for males (25–29) and females (20–24).

In the two older age groups (50–64), the prevalence of casual employment rises for both males and females. In those age groups, fixed-term employment is a less common occurrence for men, but retains some importance as a form of employment among women. Labour hire employment shows little variation both within and between genders.

Figure 4.3 **Male and female employment by form of employment and age group, 2003**



Data source: Productivity Commission estimates derived from HILDA 2003, release 3.0. Refer to table B.3 of appendix B.

No information is available regarding the prevalence of self-employed contractors by age and gender. [33]

4.3 Geographical variations

There are considerable differences in non-traditional and traditional work patterns between cities and other locations, and between jurisdictions (tables B.5 and B.6).

Casual employment is about six percentage points more prevalent in regional and remote locations than in cities. (Why this is becomes apparent when industry is considered below.) Ongoing employment is about six percentage points more prevalent in cities than in regional locations. Fixed-term employment is more prevalent in cities and regional areas and labour hire employment is more prevalent in cities than in other areas.

The Northern Territory and Tasmania are more reliant on casual employment than New South Wales, Victoria, Queensland, Western Australia and South Australia, with the Australian Capital Territory recording the lowest prevalence of this form of employment. Differences in the prevalence of casual employment across States and Territories may also be industry based.

Self-employed contractors are more prevalent in Western Australia, Queensland and South Australia, and outside of capital cities (table B.6). They are least represented is the jurisdictions with the lowest populations (Tasmania, Australian Capital Territory, Northern Territory).

Labour hire use in Tasmania is estimated to be considerably lower than in other States. This result may relate to the relatively small size of the Tasmanian labour market, or it may be due to a survey sampling issue.

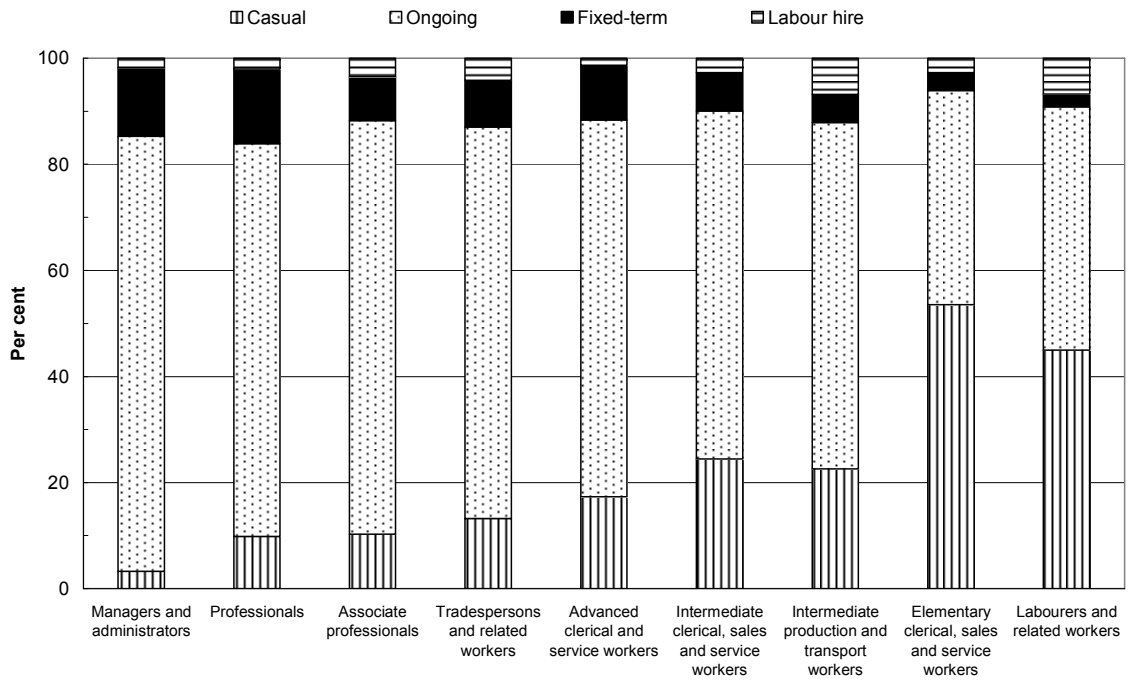
[33] The age distribution by gender of owner managers may be used as a proxy, albeit an imperfect one (see appendix A). Interested readers should refer to ABS Cat. no. 6359.0 (Forms of Employment Survey).

4.4 Do forms of employment vary between occupation and industry?

Occupation

The prevalence of casual employment is higher among lower skilled occupations than among higher skilled occupations (figure 4.4). This form of employment is particularly common among elementary clerical, sales and service workers; and labourers and related workers. For example, 54 per cent of all elementary clerical, sales and service employees are casual employees, compared with only 3 per cent of managers and administrators. The pattern for ongoing employment is the opposite, with prevalence higher among the more skilled occupations. For example, 82 per cent of managers and administrators, but only 40 per cent of elementary clerical, sales and service employees, are ongoing employees.

Figure 4.4 **Distribution of employment within occupations, by form of employment, 2003**



Data source: Productivity Commission estimates derived from HILDA 2003, release 3.0. Refer to table B.7 of appendix B.

It is likely that the occupational distribution of casual employment reflects, in part, the relatively low average age of casual employees, and the involvement of many members of this group in studying for educational and professional qualifications.

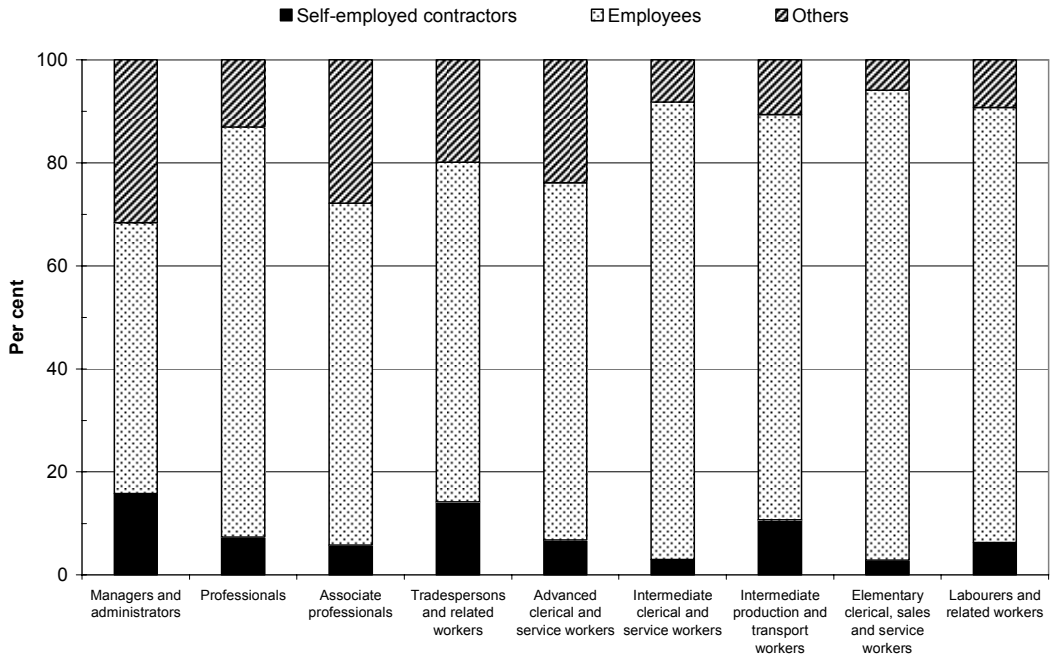
The occupational distribution of fixed-term employment is similar to that of ongoing employment. For example, the use of both fixed-term and ongoing employment is highest within the five highest skilled occupations. Whereas fixed-term employment comprises 14.1 per cent of all professional employees, only 2.4 per cent of labourers and related employees have a fixed-term contract.

While labour hire employment exists in all occupations, it is most prevalent in three relatively lower skilled occupations: labourers and related employees (6.8 per cent); intermediate production and transport employees (6.8 per cent); and tradespersons and related employees (4.2 per cent). The use of labour hire employment is lowest for advanced clerical and service employees, at 1.3 per cent of total occupational employment.

These data indicate that there is a strong relationship between the skill level of occupations and the representation of the various forms of employment. Broadly speaking, while the proportion of casual employees decreases as the skill level of an occupation increases, the proportions of ongoing and fixed-term employees increase in line with the skill level of an occupation. The relationship between labour hire employment and occupational skill level is negative, but less so than for casual employment.

As a proportion of occupational employment, self-employed contractors are most represented among managers and administrators, and tradespersons and related workers (figure 4.5).

Figure 4.5 **Prevalence of self-employed contractors within occupations, 2001**



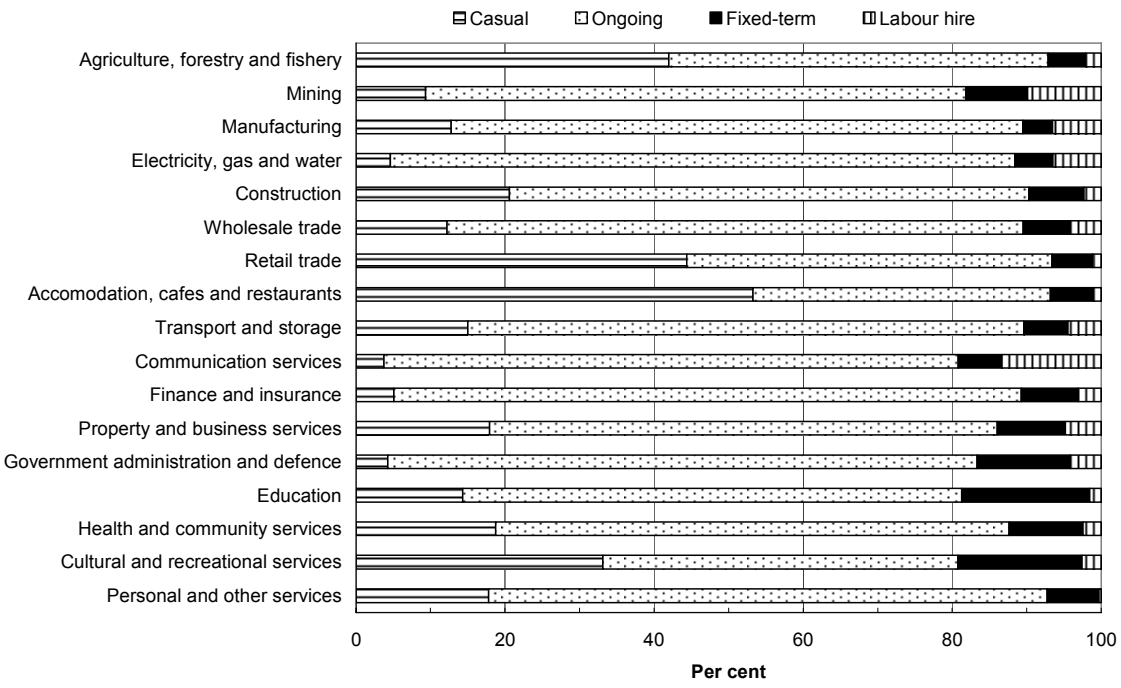
Data source: Productivity Commission estimates based on unpublished data from ABS (Forms of Employment Survey, Cat. no. 6359.0). Refer to table B.8 of appendix B.

Managers and administrators, and tradespersons and related workers, are the occupations where self-employment is traditionally most prominent. The relatively high prevalence of self-employed contractors within the intermediate production and transport workers category is also expected, given that many owner-drivers work as self-employed contractors (State of Victoria 2005). The prevalence of self-employed contractors in other occupations is generally low, at under 10 per cent.

Industry

There is considerable diversity in the mix of non-traditional and traditional work across industries (figures 4.6 and 4.7). The largest differences relate to the balance of casual and ongoing employment. In accommodation, cafes and restaurants, 53 per cent of all employees are casual, and 40 per cent ongoing; in electricity, gas and water, casual employees represent only about 5 per cent and ongoing employees 84 per cent of total employment.

Figure 4.6 **Distribution of employment within industries, by form of employment, 2003**



Data source: Productivity Commission estimates derived from HILDA 2003, release 3.0. Refer to table B.7 of appendix B.

Casual employment is also used intensively in retail trade; and agriculture, forestry and fisheries, comprising 44.4 per cent and 42.0 per cent, respectively, of all employment in those industries. Agriculture's relatively intensive use of casual employment may explain why the use of casual employment is greater in regional areas. The use of casual employment is lowest in communication services; government administration and defence; and electricity, gas and water, comprising only 3.8 per cent, 4.3 per cent and 4.6 per cent, respectively, of employment in these industries. Each of these industries use ongoing employment intensively (77.0 per cent, 79.1 per cent and 83.8 per cent, respectively). The use of ongoing employment is also high in finance and insurance (84.2 per cent).

Ongoing employment only falls below 50 per cent of total industry employment in accommodation, cafes and restaurants; cultural and recreational services; and retail trade. These three industries rely on casual employment more heavily than other industries.

In no industry does the combined use of fixed-term and labour hire employees exceed 20 per cent. Cultural and recreational services; and communication services, each with 19.2 per cent of their workforce employed under those forms of employment, are the highest overall users. Individually, fixed-term employment is

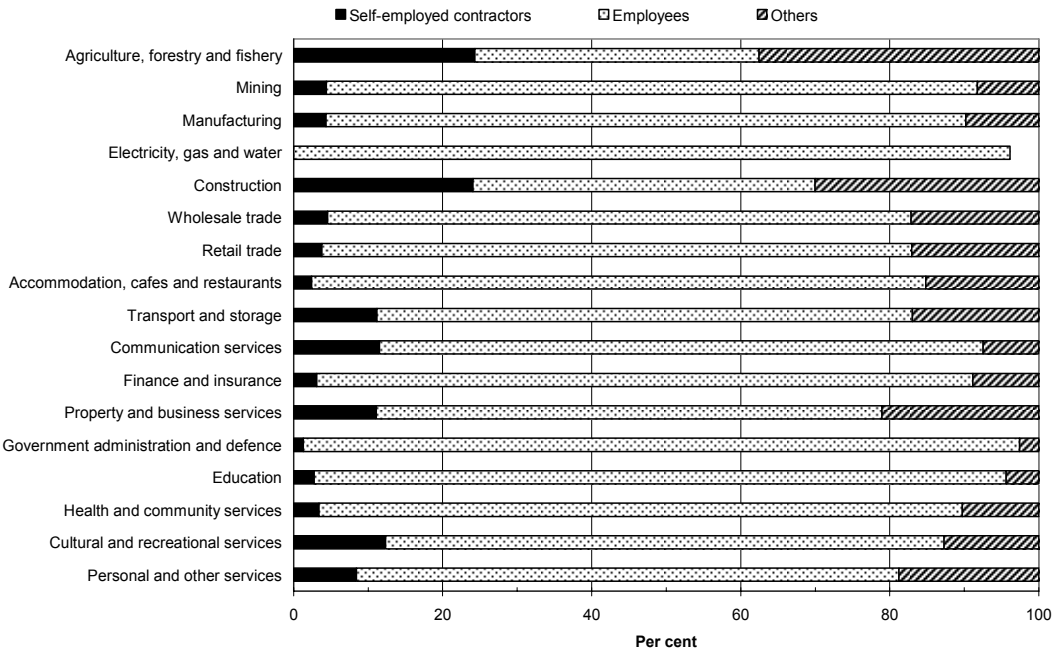
used most intensively in education (17.2 per cent) and in cultural and recreational services (16.6 per cent). Labour hire employment is used most intensively in communication services (13.4 per cent) and mining (9.9 per cent).

Agriculture, forestry and fishing; and construction are the industries that stand out in terms of their use of self-employed contractors, with almost a quarter of their workforce engaged in this form of work (figure 4.7). A second group of industries (transport and storage; communication services; property and business services; and cultural and recreational services) use non-traditional employment for around 11 per cent of their workforce. For the remaining industries, this percentage is below 10 per cent.

4.5 Do hours worked per week differ between forms of employment?

Ongoing, fixed-term and labour hire employees and self-employed contractors work predominantly full-time (35 hours or more per week) (figure 4.8). By contrast, the majority of casual employees work part-time, that is, 34 or fewer hours per week.

Figure 4.7 **Prevalence of self-employed contractors within industries, 2001[a]**



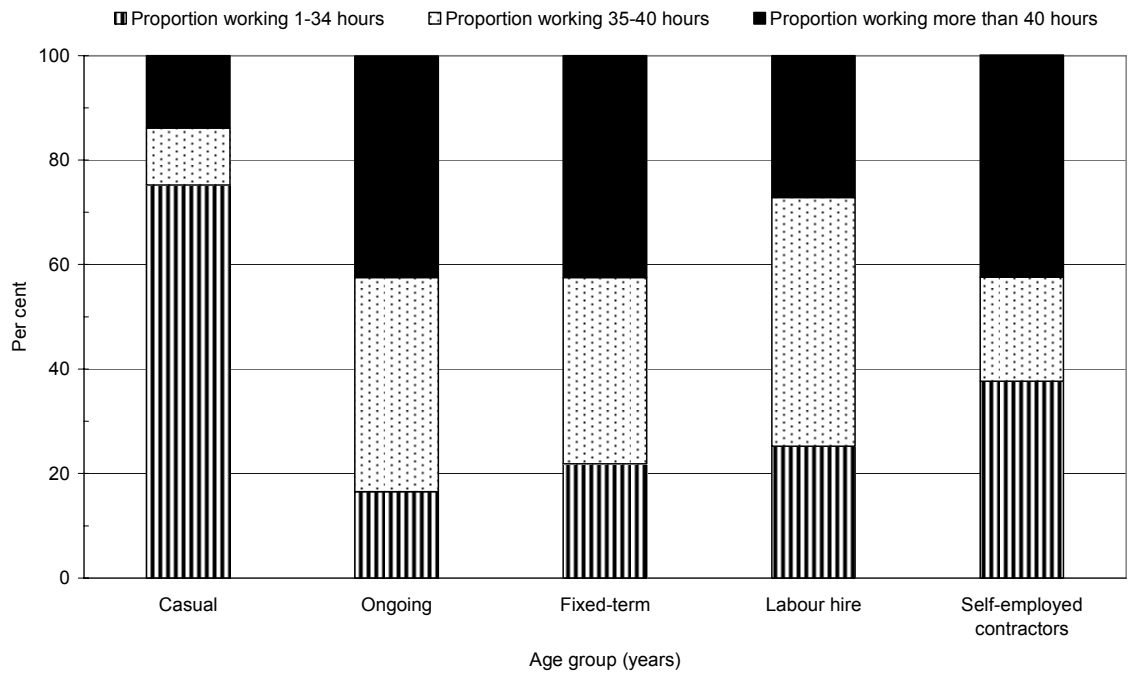
a The prevalence of self-employed contractors and other workers in the electricity, gas and water industry cannot be estimated.

Data source: Productivity Commission estimates based on unpublished data from ABS (Forms of Employment Survey, Cat. no. 6359.0). Refer to table B.8 of appendix B.

Long hours of work (more than 40 per week) are associated mainly with ongoing and fixed-term employees, and with self-employed contractors. In reality, the propensity of self-employed contractors to work long hours is likely to be higher than that of the other groups, because figure 4.8 shows hours worked by self-employed contractors in their main job only. It is perhaps surprising that a significant proportion of self-employed contractors also work part-time. Relatively few self-employed contractors work for what might be regarded as the 'norm' of a 35- to 40-hour working week.

The average number of hours worked weekly by workers in each form of employment mainly reflects the prevalence of 'normal' full-time work in that arrangement (table B.9). The exception is self-employed contractors; as they tend to work more above-normal hours than labour hire employees, they also record a higher average than that group (37 hours per week compared with 34 hours). Average hours worked per week by self-employed contractors would be higher still if hours worked in all jobs were considered.

Figure 4.8 **Hours worked per week in all jobs by form of employment, 2003[a]**



a Data for self-employed contractors are for 2001 and for main job only.

Data source: Productivity Commission estimates derived from HILDA 2003, release 3.0, except self-employed contractors (based on unpublished data from ABS [Forms of Employment Survey, Cat. no. 6359.0]). Refer to table B.9 of appendix B.

Despite casual employees and labour hire employees often being regarded as substitutes, they typically work a different number of hours. The majority of casuals work part-time, for reasons that mainly reflect personal preferences (box 4.1). It is worth noting, however, that almost a quarter of casuals work full-time, with some of them working long hours. Labour hire employees mostly work full-time, and most have a working week of 'normal' duration.

4.6 Is there a relationship between education and form of employment?

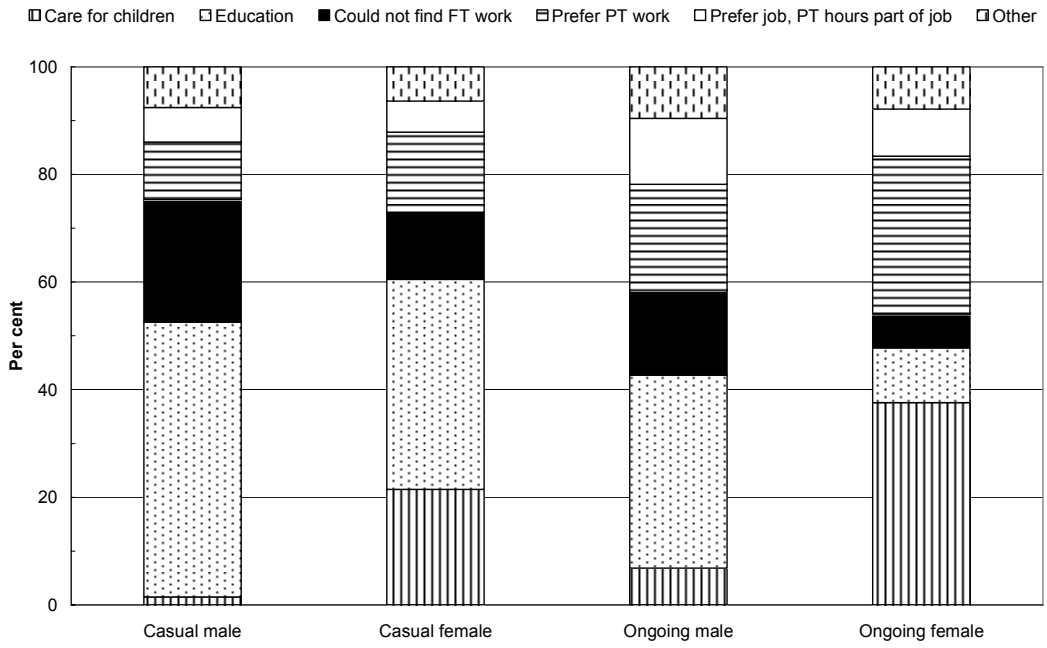
Casual employees have a lower level of education, on average, than employees in all other forms of employment (figure 4.10). While most ongoing (63 per cent), fixed-term (70 per cent) and labour hire (52 per cent) employees have at least a certificate or diploma, only 38 per cent of casual employees have achieved that level of education. Almost two-thirds of casual employees (62 per cent) have completed Year 12 or less.

Box 4.1 **Why do casual employees work part-time?**

The HILDA survey questioned respondents on their reasons for working part-time. Due to sample size issues, the only group of non-traditional workers for which these reasons can be separately identified by gender is casual employees. Both male and female casual employees nominate education as the most important reason for working part-time (figure 4.9 and table B.10). The high proportion of casual employees nominating education is not surprising, as 48 per cent of casual employees are aged between 15 and 24. Ongoing male employees also cite education as their main motivation for working part-time, although it is likely that some undertake this education later in life, and as part of an upgrading of existing qualifications.

The second most nominated reason for casual female employees working part-time is caring for children, which is also the main reason ongoing female employees give for working part-time. Caring for children is seldom nominated by either casual or ongoing male employees as a reason for working part-time. Instead, if not for education, males tend to work part-time because they prefer it to full-time work (ongoing employees) or because they cannot find full-time work (casual employees).

Figure 4.9 **Most important reasons for casuals working part-time,[a] 2003**

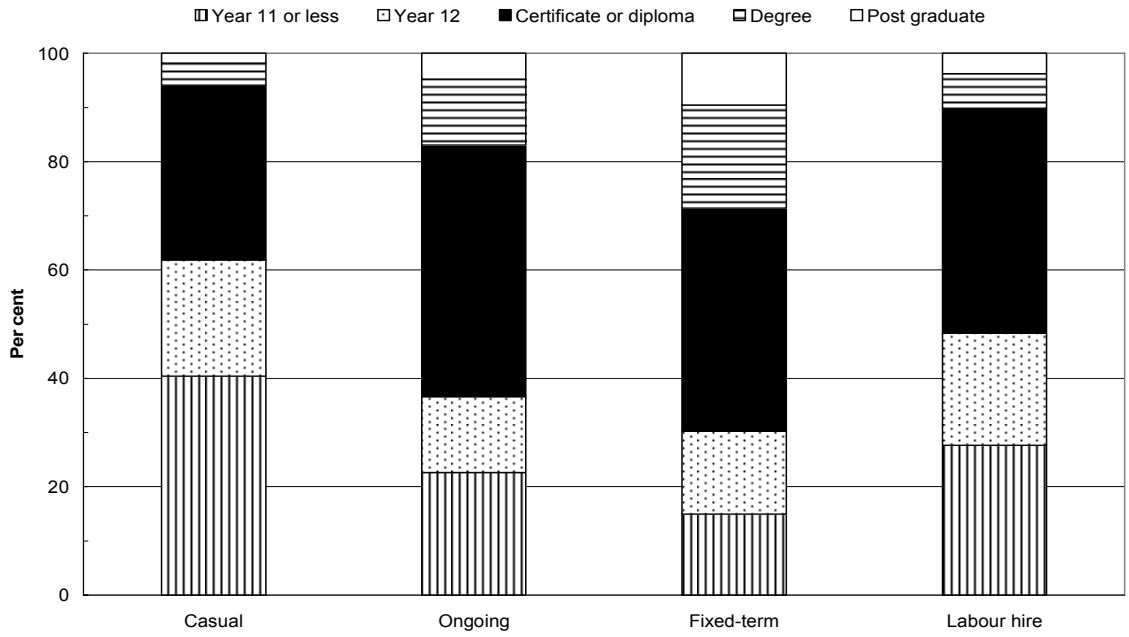


a Ongoing excludes labour hire employees. **PT** part-time. **FT** full-time. **Other** detailed in table B.10.

Data source: Productivity Commission estimates derived from HILDA 2003, release 3.0. Refer to table B.10 of appendix B.

Not unexpectedly — given that 55 per cent of labour hire employees are casual employees — the education level of labour hire employees lies between that of ongoing and casual employees.

Figure 4.10 **Highest level of education completed,[a] 2003**



a Employees who have left secondary school and who are not currently studying full-time in a post-secondary course.

Data source: Productivity Commission estimates derived from HILDA 2003, release 3.0. Refer to table B.11 of appendix B.

Fixed-term employees have the highest education level of all groups for which data are available, with 29 per cent having at least completed a degree, compared with only 17 per cent of ongoing employees.

No information is available on the educational attainment of self-employed contractors.[34]

4.7 Job satisfaction of non-traditional workers

The HILDA survey allows the conditions of employment and the personal circumstances of employees to be linked to their level of satisfaction with various aspects of their job. These links are discussed with regard to casual, fixed-term and labour hire employees below, with the underlying data provided in table B.12. No

34 The educational attainment of owner managers may be used as a proxy, albeit an imperfect one (see appendix A). Interested readers should refer to ABS Cat. no. 6361.0 (Survey of Employment Arrangements and Superannuation).

equivalent information is available in the HILDA or FOES surveys for self-employed contractors.[35]

Headey et al. (2006, p. 66) describe satisfaction levels above 8.0 as 'high', where the satisfaction scale ranges from zero (dissatisfied) to 10 (satisfied). All employee groups, therefore, have a 'high' level of overall job satisfaction (figure 4.11).[36] Nevertheless, labour hire workers are less satisfied with their employment than the other three groups of workers, according to the overall job satisfaction measure.

Different forms of employment may derive overall job satisfaction from different aspects of their work. The high level of overall job satisfaction of fixed-term employees appears to be underpinned by this group being relatively happy both in terms of the hours worked and the nature of the work performed (figure 4.11 and table B.12). This is in contrast with casuals and labour hire workers, who are somewhat less satisfied with regard to these two criteria. The reasons for casuals being less satisfied than fixed term employees may relate to the fact that they work:

- fewer and irregular hours, together with their preference for working more hours; and
- in lower skilled jobs, and receive relatively little employer-provided training (table B.12).

On the positive side, the relatively few hours worked by casual employees means that they report a high satisfaction rating in terms of their ability to balance their work and non-work commitments. This result may be linked to the relative youth of casual employees, and their need to balance work and study. Fewer hours of work per week may also suit persons who have child care responsibilities or who have a work-limiting disability.

Casual employees are not dissatisfied with their form of employment in terms of job security, as they report a high satisfaction level of 8.2 for this measure. Indeed, on most indicators of job security, casuals outperform labour hire and fixed-term employees (table B.12).

Surprisingly, perhaps, there is no significant difference in terms of satisfaction with total pay between casual and ongoing employees. In the case of casuals, satisfaction with pay might reflect a number of factors:

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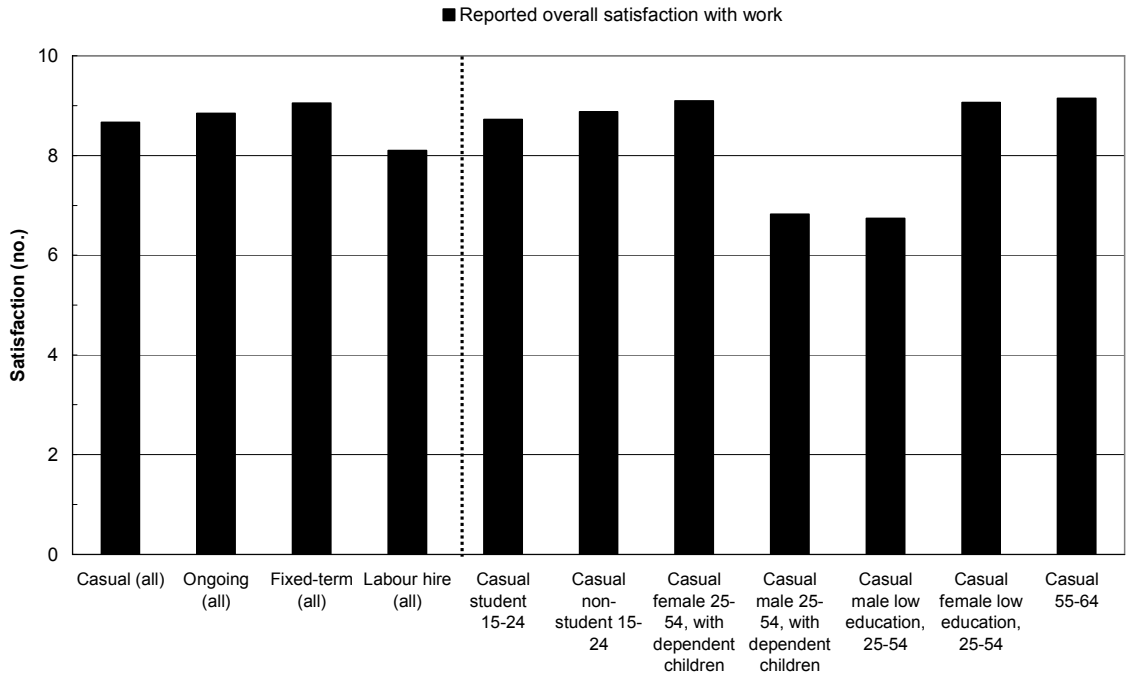
35 However, other surveys in Australia (Evans and Sikora 2004) and Europe (Benz and Frey 2004) suggest that self-employed persons (a group which overlaps with self-employed contractors as defined here) have a consistently higher level of work satisfaction than employees.

36 Satisfaction measures in this section and the next were tested to ensure that reported differences are statistically significant.

- their propensity to work several jobs;
- their desire to achieve better work–life balance; or
- the compensation they receive from salary loadings.

Figure 4.11 **Overall job satisfaction of employees and selected casual employee groups, 2003**



Data source: Productivity Commission estimates derived from HILDA 2003, release 3.0. Refer to tables B.12 and B.13 of appendix B.

Labour hire workers, on the whole, are the least satisfied of workers in the four forms of employment. Their satisfaction with total pay, job security and work–life balance is relatively low (table B.12). These results align with a HILDA based quantitative study by Wooden and Warren (2003), which found that labour hire work was significantly associated with lower levels of overall job satisfaction for males.

4.8 Job satisfaction of casuals

The analysis presented earlier in this chapter leads to the conclusion that casual employment differs in important respects from the other forms of employment examined. For that reason, a closer examination of casual employment is conducted in this section, supported by data contained in table B.13. As in the earlier section on employment by age, casual employees aged 15–24, 25–54, and 55–64 are

examined separately. These three groups are further disaggregated, to examine within-age group differences. For example, casual employees aged 15–24 who are students (both secondary and post-secondary) are unlikely to have the same characteristics as similar aged casual employees who are not students. Next, the circumstances of casual employees aged 25 to 54 who have dependants are investigated. In the same age group, the impact of having a low level of education is examined. Finally, selected characteristics of all casuals aged 55 to 64 are presented and interpreted.

Given the differences previously identified between permanent casuals and true casuals (see chapter 2), it would be worthwhile to examine the job satisfaction of these groups separately. However, these two types of casual employee cannot be distinguished using the HILDA survey.

Of the selected groups of casual employees identified, most are highly satisfied overall with their job, except for males aged 25–54 with dependent children and similarly aged males with a low education (figure 4.11). Indeed, with the exception of the satisfaction with the nature of work measure, prime working age male casuals with dependants, and those with a low level of education, are the least satisfied of all casual groups in all dimensions of their work relationship (table B.13). This finding is consistent with the multivariate results of Wooden and Warren (2003), who found that males working as full-time casuals are least satisfied with regard to the overall job satisfaction measure. The characteristics of this 'dissatisfied males' group are examined further below.

Casual employees aged 15 to 24

Almost two in ten casual employees (18 per cent) are aged from 15 to 24 and are not students (table B.13). A further three in ten (29 per cent) are of similar age and are students. That is, almost half of casual employees are aged under 25, providing a further indication that casual employment may play an important role for many young employees beginning their working life.

More than two-thirds (69 per cent) of casual employees who are aged from 15 to 24, and who are not students, work in lower skilled occupations. Nonetheless, their reported satisfaction with their pay (8.0) is higher than that of ongoing employees (7.7) and their overall job satisfaction (8.8) is not different from that of ongoing employees. However, their satisfaction with their job security (8.7), while high, is below that of ongoing employees (9.1).

Most casual employees who are students and who are aged from 15 to 24 work in lower skilled occupations (65 per cent) and earn less than $300 per week (84 per

cent).[37] Despite this, they report a high average level of satisfaction with their job security (8.9) and their satisfaction with their total pay (8.1) is also high.

Casual employees aged 25–54

In the population of prime working age casual employees, two groups in particular are potentially of policy interest: casuals with relatively low levels of education; and casuals with dependent children.

Casual employees aged 25–54 with relatively low levels of education

Casual employees in this group have completed Year 12 or a lower level of education. These casual employees constitute around a fifth (17 per cent) of all casual employees. While both males (6.2 per cent) and females (11.0 per cent) belonging to this group would equally like more hours (39 per cent for both), males are less satisfied than females with their hours of work (6.0 and 7.4, respectively). Males are also less satisfied than females with their job security (6.2 and 7.7, respectively).

While it is not surprising that many of these casuals have lower skilled jobs, given their low level of education, it is surprising that many more males (79 per cent) than females (53 per cent) in this group are in lower skilled jobs. Two possible explanations for this gender gap are:

- Females who, despite having a low level of education, have the work experience and motivation to fill higher skilled ongoing jobs may nevertheless prefer to remain employed on a casual basis. By contrast, similarly experienced males may prefer to obtain ongoing work.
- Many of the males with relatively low levels of education (26 per cent) have a health condition that affects their work. Far fewer females have that characteristic (12 per cent). It is possible that the higher prevalence of disability in men with low education levels causes them to remain in lower skilled occupations.

Prime working age males with low education levels form a small proportion of casuals (6.3 per cent) and a very small proportion of the total number of employees (1.4 per cent) (table B.13).

[37] The contribution of non-traditional work to family income is considered in chapter 7.

Casual employees aged 25–54 with dependent children

Casual employees aged from 25 to 54 with dependent children comprise 11 per cent of all casual employees. Males and females within this group also have different characteristics. Few males (6 per cent) in this group earn less than $300 per week, although over half (56 per cent) work in lower skilled occupations. In part, this is because this group of males work the longest hours of any group of casual employees (34 hours per week). Despite this, many males with dependants want more work (30 per cent). Not surprisingly, given childrearing responsibilities, many females (48 per cent) earn less than $300 per week and they work fewer hours (20) than similar males. That a larger proportion of females with dependants (47 per cent), than males, want to work additional hours, may be an indicator of the financial and other pressures that both males and females with dependants face.

As mentioned earlier, there are also pronounced gender differences in the satisfaction measures of casual employees with dependants. Males aged 25–54 with dependants report the lowest level of satisfaction with pay (6.7), job security (5.3) and hours worked (5.9) of all employees (figure 4.11 and table B.13). Females in this group report much higher levels of satisfaction on these measures (7.8, 7.8 and 7.4, respectively). Female pay satisfaction in this group is equal to that of ongoing employees. Indeed, female overall job satisfaction for this group, at 9.1, is as high as that of any group of employees, including fixed-term employees. By contrast, the low level of male overall job satisfaction (6.8) for this group is only matched by that of prime working age males with a low level of education. While the satisfaction of females with their ability to balance work and non-work commitments (8.5) is equal to that of any other group of employees, this measure for males (6.1) is the lowest of all employees, including males with a low level of education.

The consistently low job satisfaction ratings recorded by these 'dissatisfied males', may stem from the fact that, while they resemble ongoing, full-time workers in regard to hours worked, they may lack some of the job security, predictability and pay attached to ongoing work. However, this dissatisfied group forms only a small proportion of casuals (3.1 per cent) and a very small proportion of the total number of employees (0.7 per cent) (table B.13).

Casual employees aged 55 to 64

Casual employees aged from 55 to 64 comprise around one in ten (10.5 per cent) of all casual employees, and 2 per cent of all employees (table B.13). Surprisingly, their average time with their current employer (7.5 years) exceeds that of all other employees, including ongoing employees (7.1 years). The levels of satisfaction they report with their pay (8.1); work (8.8); hours (8.9); ability to balance work and non-

work commitments (9.3); and overall job satisfaction (9.1) are all high (table B.12). Only their satisfaction with their job security (8.1), while high, is less than that of ongoing employees (9.1).

Because they work relatively few hours per week, (males 23; females 13), in lower skilled jobs (41 per cent), many earn less than $300 per week (43 per cent of males and 70 per cent of females).

The prevalence of casual employees with a health condition (16 per cent) in this group is only slightly higher than that in the group of casual employees aged from 25 to 54 (14 per cent), suggesting that those with a significant health condition tend to retire.

It appears, overall, that casual employment is well suited to the work requirements of persons aged 55–64 who remain in the labour force. Because most people are retired by the time they reach 65, it is likely that non-traditional work is the last form of labour force participation for a significant number of older Australians. Data available in the HILDA survey regarding the work–retirement transition suggest that non-traditional work offers many older workers a means of remaining in the labour force for longer than they would otherwise be able to or choose to (box 4.2 and appendix C).

4.9 Other characteristics of self-employed contractors

When considering the characteristics of self-employed contractors, it is useful to distinguish between those self-employed contractors who are clearly independent of the businesses they contract with, and those who can be regarded as dependent on their clients (see chapter 2).

Compared with employees (including casual employees), both independent and dependent contractors are more likely to be married and to have dependent children (table 4.1). This is probably a reflection of self-employed contracting being especially prevalent in prime and older age groups (figure 4.2).

In some cases, differences between employees and self-employed contractors depend on whether the latter are dependent or independent. Dependent contractors are more likely than both employees and independent contractors to be from a non-English speaking background and to want more hours of work. There is virtually no difference between employees and independent contractors on those two counts. By contrast, both types of self-employed contractor are more likely than employees to want to work fewer hours.

Box 4.2 Older Australians: influences on their work and retirement decisions

The HILDA survey sheds light on several aspects of the work–retirement decision of persons aged between 45 and 64.

Persons aged 45 to 64

Most employed 45 to 64 year olds are ongoing employees. Seventy-nine per cent of ongoing employees state that they would prefer to switch to another job before retirement. They would like that job to: involve fewer hours; be less demanding; and be occasional or casual. In many cases, choosing a new job on the basis of these criteria will mean that ongoing employees will shift to non-traditional work before retirement. By implication, the availability of non-traditional work may cause some people who would otherwise retire to remain in the workforce for a longer period.

Work changes of those preparing for retirement

Non-traditional employees make up almost three quarters of those who declare themselves to be partially retired. Ongoing workers who are partially retired tend to work reduced hours or in a less demanding job. Partially retired non-traditional employees also use these methods (women more so than men), but they are also more likely to have changed their job and, not unexpectedly, to work on a casual or occasional basis.

In the majority of cases, the decision to become partially retired was self-initiated by non-traditional employees, although this was somewhat more the case for women than for men.

Why return to work from retirement?

In 2003, those returning to work from retirement added an estimated 160 000 employees to the workforce, and four out of ten of those persons returned as non-traditional employees. Most females returned as non-traditional workers for financial reasons or because they were bored. When men returned as non-traditional workers, they usually did so because they were bored or disliked retirement. Some retirees, particularly males, returned as non-traditional workers at their employer's behest.

Work influences on the decision to retire

Retirement decisions are made on the basis of interrelated financial, health and leisure considerations. In 2003, four of the six top reasons cited by retirees for retiring related to: health; family; and leisure. This suggests that forms of employment that enable people to meet both work and non-work commitments, such as casual employment, prolong the working life of older Australians.

Source: Productivity Commission estimates derived from HILDA 2003, release 3.0. See appendix C.

Table 4.1 **Other characteristics of self-employed contractors, 2001**

Characteristic	Employees	Self-employed contractors		Others[a]
		Independent	Dependent	
	%	%	%	%
Married	59.0	74.4	70.2	79.5
With dependants	34.2	39.2	41.5	45.6
NESB migrant	13.7	13.9	16.5	16.9
Prefers more hours	14.6	14.3	19.8	8.9
Prefers fewer hours	23.2	31.8	30.8	41.9
Receives variable earnings	24.8	83.4	75.8	61.7

[a] **Others**, all other employed persons, excluding self-employed contractors. This group comprises some employees who did not receive both paid sick and holiday leave, and who did not consider themselves to be casuals. It also includes some owner managers of incorporated and unincorporated enterprises. See appendix table B.2.

Source: Productivity Commission estimates based on unpublished data from ABS (Forms of Employment Survey, Cat. no. 6359.0).

Self-employed contractors are much more likely than employees to have variable earnings. Dependent contractors are slightly less prone to variable earnings than independent contractors, which may be due to the former having a relatively stable relationship with a single client.

4.10 Summary

A comparison of the age profile of traditional and non-traditional workers indicates that many workers enter the workforce as casual employees aged between 15 and 19. As these new entrants age, many switch to ongoing employment and, less frequently, to other forms of non-traditional work, so that the prevalence of non-traditional work in total employment declines after age 19. The prevalence of non-traditional work remains stable throughout the prime working age years (25–54), as does the number of non-traditional workers. In older age groups (55–64), the number of non-traditional workers decreases, but its prevalence increases strongly. This occurs because many ongoing workers shift to non-traditional work, prior to retirement. Thus, non-traditional work may be conducive to continued labour force involvement by older workers.

The composition of non-traditional work changes as age increases. While casual employment is the main form of employment for young non-traditional workers, prime working age and older workers are more likely to work in fixed-term employment and in self-employed contracting. A similar dichotomy applies to gender differences: on the whole, females are more likely to work as casuals, and males as fixed-term employees or self-employed contractors.

Geographically, casual employment and self-employed contracting are more commonly found outside capital cities, and in less populated jurisdictions (with the exception of the ACT), while the reverse applies to labour hire, fixed-term and ongoing employment.

In terms of skills, casual employment and, to a lesser extent, labour hire employment, are more common in lower skilled occupations. Fixed-term employment, ongoing employment and self-employed contracting become more common as the occupational skill level increases. This pattern mirrors broadly that of educational attainment across forms of employment, with fixed-term employees having the highest such attainment.

Use of non-traditional work varies considerably between industries, influenced mainly by the balance between casual employment and ongoing employment in different industries. Industries that are casual-dominated are usually service industries: accommodation, cafes and restaurants; and retail trade. However, agriculture is also an intensive user of casual employment, as well as of self-employed contractors. Self-employed contractors are also relatively common in construction.

There is little to distinguish ongoing from fixed-term employees in terms of hours worked. Both these groups predominantly work full-time and, in some cases, long hours. Labour hire employees also work full-time in the main, but their hours tend to fall within the 'normal' range. Relatively few self-employed contractors work within that range, with most self-employed contractors working either part-time or long hours. Finally, the vast majority of casuals work part-time, although about a quarter work full-time. Because most casuals are young, the main reason given by this group for working part-time is education.

Self-employed contractors tend to be male, older, with family commitments, and have variable earnings. They would prefer to work fewer hours, on the whole.

Fixed-term employees report a high level of overall job satisfaction. While fixed-term employees are not the happiest in terms of job security, they enjoy their working hours, the work they do, and their capacity to achieve work–life balance. They also receive very similar entitlements and training to ongoing employees.

Most groups of casual employees have a high overall level of job satisfaction. Indeed, some casuals, such as women aged from 25 to 54 with dependants, and casuals aged 55 and above, express high levels of work satisfaction, overall, and in respect of important dimensions of work (nature of work and work–life balance). By contrast, other groups such as prime age male casuals with relatively low levels of education, or similarly aged males with dependants, appear dissatisfied with their

employment. These two dissatisfied groups together form a small proportion of the total number of casual employees and a very small proportion of the total number of employees.

Overall, it appears that, as discussed in chapter 3, workers' participation in non-traditional forms of employment may reveal information about their work preferences. However, it is difficult to ascertain what their choice of employment indicates, without information about both their work and life satisfaction. The satisfaction data provided by the HILDA survey are therefore of great value to researchers as they enable insight into *why* workers make the work choices they do. That some workers' employment choices may be constrained by the options on offer from employers is reflected in the relatively low levels of job satisfaction recorded by some groups.

5 The role of non-traditional work in labour market transitions

Key points

- Analysis of workers who changed their employment status in either 2002 or 2003 from what it was in 2001, indicates that non-traditional employment acts as a well trodden pathway to ongoing employment, for many of those who were formerly 'not in the labour force' or unemployed.
- Labour market states fall into two groups with regard to persistence:
  - those with relatively high rates of persistence: ongoing employment; self-employment/employers; and 'not in the labour force'; and
  - those with relatively low rates of persistence: unemployment; fixed-term employment; labour hire employment; and, to a lesser extent, casual employment.
- Examination of flows of workers between forms of employment offers further evidence on why non-traditional work is a pathway to ongoing work and why non-traditional work has a low persistence rate. The proportion of persons flowing from non-traditional work to ongoing work is three times as large as that flowing from ongoing work to non-traditional work between 2001 and 2003. In addition, there are flows from non-traditional work to unemployment and 'not in the labour force'.
- Whether a person was unemployed or not in the labour force in 2001 influenced that person's likelihood of working as either a non-traditional or ongoing worker in 2003. While the unemployed were around 20 per cent more likely to obtain non-traditional than ongoing work, those formerly not in the labour force were 45 per cent more likely to obtain non-traditional than ongoing work.
- Analysis of the pathways by which people obtained ongoing employment by 2003 indicates that the most frequented pathways to ongoing employment involved obtaining non-traditional employment in either 2001 or 2002.
- The disaggregation of casual employees into selected categories (age, gender, student, education and whether they have dependent children) reveals very different rates of persistence from 2001 to 2003. For those categories, persistence relates to each category's other characteristics and work satisfaction ratings.

Flows of workers into and out of different forms of employment are examined in this chapter. A person's form of employment changes when, for example, a casual employee obtains ongoing work. That transition may, or may not, involve a change

of employer. It is important to examine such transitions as, for instance, hours of work, and therefore income, may be related to a person's form of employment.

For the period 2001 to 2003, the following features of non-traditional work are examined in detail:

- the persistence of each form of employment;
- the relative importance of flows:
  - from unemployment; and
  - into ongoing work.

The analysis of changes in forms of employment, while valuable, has two important limitations. First, assessing the effects of a change in a person's form of employment, without information on that person's work preferences, can be problematic. As discussed in chapter 3, some people prefer the flexibility that non-traditional work provides, while others prefer the stability of ongoing employment. Second, the analysis is based on a person's reported form of employment at the time of the annual HILDA survey. Therefore, persons reporting that they are, for example, unemployed at the time of the survey may have been employed for part of that year. This also means that transitions involving people who lost ongoing employment after a survey, but regained it before the next one, are not modelled. A further consideration may be relevant; the period from 2001 to 2003 was one of strong demand for labour, particularly ongoing work. In a period of weaker labour demand, the supply of, and the demand for, different forms of work could result in a different pattern of transitions.

The pattern of transitions from non-traditional work is also a function of the institutional framework. Some authors have argued that, as non-traditional work results in some workers receiving less benefits than they would if they secured ongoing work (Campbell 2004; Watson 2005b), legislation regulating non-traditional work should be strengthened (ACTU 2002). If that were to occur, a likely outcome is that, while some people who are currently employed as non-traditional workers would become ongoing workers, others would remain unemployed or not in the labour force. That is, the pattern of transitions is influenced by the regulations governing employment.

In the first section, labour market transitions are examined for all persons of working age, that is, those aged 15–64. In that section, a flow chart that tracks the employment status of all persons from 2001 to 2003 is provided to introduce the form of analysis used in this section and the chapter. The second section focuses on the 'employee labour market' (that is, casual, ongoing, fixed-term and labour hire employees) and those most likely to become employees, namely the unemployed.

Transition tables relating to the overall and employee labour markets are presented in appendix B.

5.1 Labour market transitions of people of working age

As an aid to understanding the analysis, figure 5.1 presents a diagrammatic view of all transitions that occurred in the overall labour market between 2001 and 2003. The figure comprises five states: non-traditional work; self employment/employer; ongoing work; unemployment; and 'not in the labour force'.[38] The figure shows, for example, that almost four in ten (38.5 per cent) of the total number of people aged from 15 to 64 in 2001 were ongoing employees. Of those, most (80.8 per cent) remained ongoing in 2002 and many (70.4 per cent) remained in that state in 2003. That is, ongoing work has a high persistence rate as most ongoing employees in 2001 remained ongoing employees in all three years.

Transition analysis can be used to answer questions such as: in 2003, what had become of the 5.2 per cent of people who were unemployed in 2001? This can be investigated in two ways, depending on whether the destination in 2003 or the pathway is of interest.

The persistence of forms of employment

Analysis of the five work and non-work categories from 2001 to 2003 reveals quite different rates of persistence over the period. The persistence rates for non-traditional employment (34 per cent) and unemployment (12 per cent) are low when compared with the other three categories (figure 5.2). For example, only a third of non-traditional employees in 2001 remained similarly employed in 2002 and 2003. The persistence rates for ongoing employees, the self-employed/employers and those not in the labour force (at 70 per cent, 71 per cent and 65 per cent, respectively) are, by comparison, high. These labour market states are, therefore, relatively stable. By contrast, unemployment and non-traditional employment largely act as pathways to other states.

[38] The category 'self-employed/employers' includes employers, employees of own businesses and self-employed contractors. Unpaid family workers are excluded both from the category 'self-employed/employers' and from the analysis.

Figure 5.1 **Labour market transitions,[a] 2001 to 2003, per cent**

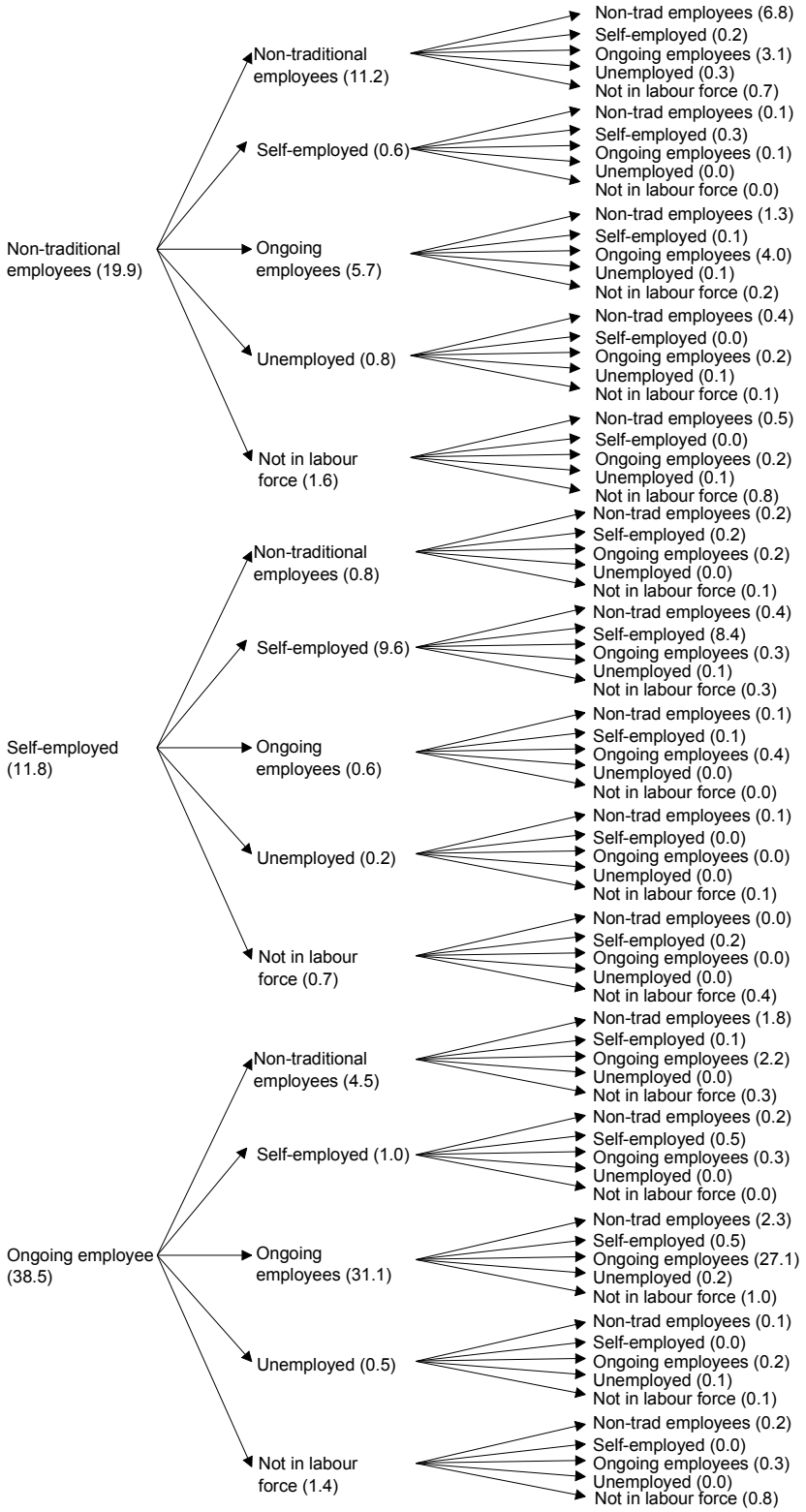


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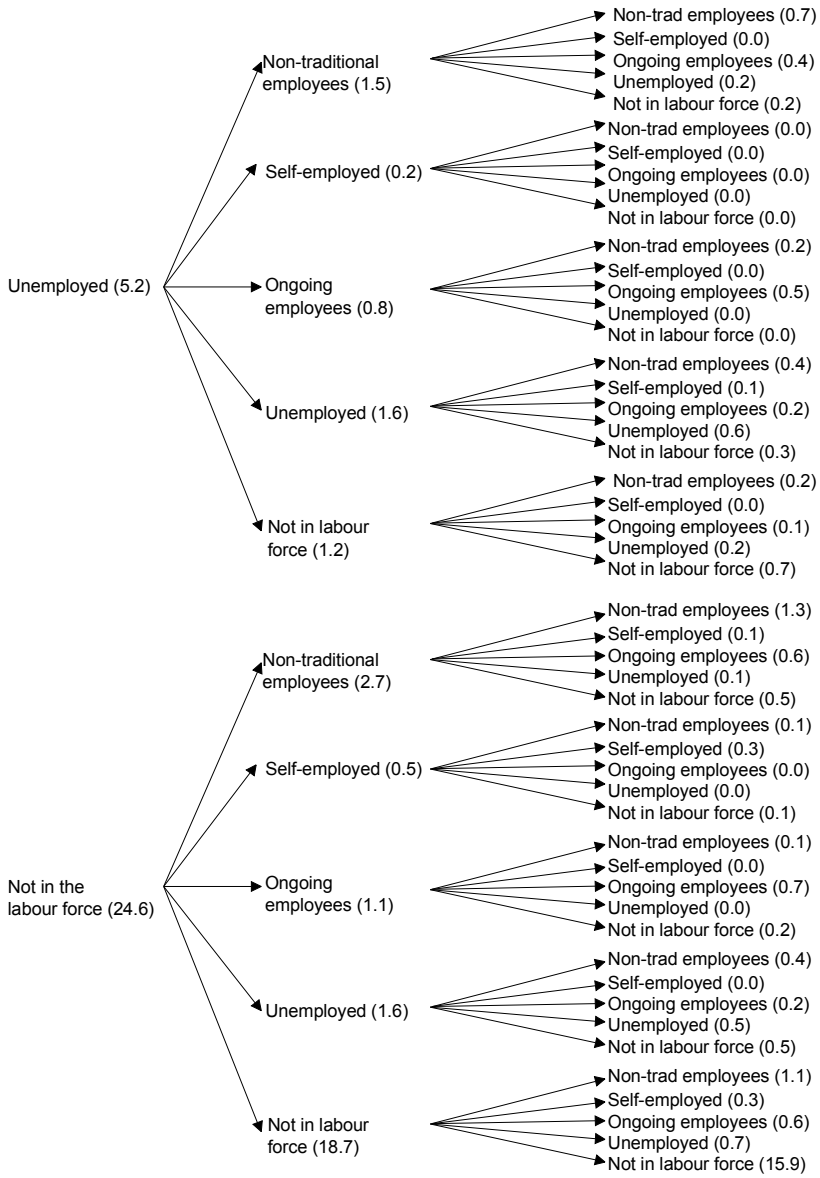
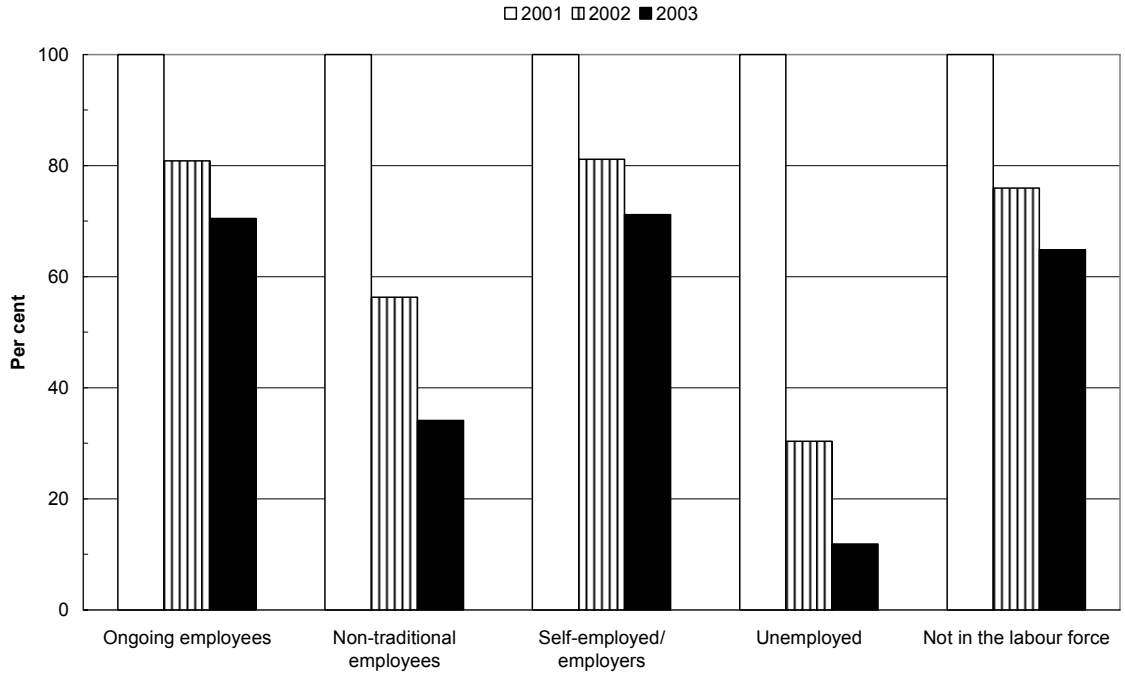
Figure 5.1 **(continued)**



a Ongoing employees exclude labour hire employees. The category self-employed/employers includes employers, employees of own businesses and self-employed contractors. Unpaid family workers are excluded from the analysis. The first column of numbers referring to 2001 sums to 100.0. The next two columns should also sum to 100.0, but they may not due to rounding.

Data source: Productivity Commission estimates derived from HILDA 2001–03 surveys, release 3.0. Data are reproduced from table B.14.

Figure 5.2 **Persistence of labour market states,[a] 2001 to 2003**



a Ongoing employees exclude labour hire employees, which are included as non-traditional employees.

Data source: Productivity Commission estimates derived from HILDA 2001–03 surveys, release 3.0. Refer to table B.14 of appendix B for transitions data.

Changing forms of employment

Whereas figure 5.2 displayed the proportion of people in the same labour market state in 2001, 2002 and 2003, table 5.1 analyses transitions differently by examining those whose origin in 2001 and destination in 2003 were the same, without taking into account a person's state in 2002. That is, the intermediate state in 2002 is *not* taken into account or shown, unlike in the previous section. The object of this form of analysis is to highlight medium-term flows for the period, rather than the intrinsic stability of particular forms of employment.

The first figure in the third column of table 5.1 indicates that almost one in eight (11.9 per cent) ongoing employees in 2001 worked as a non-traditional employee in 2003. However, well over a third (37.9 per cent) of non-traditional employees in 2001 worked as ongoing employees in 2003. That is, while there is a flow of workers from ongoing to non-traditional employment, the opposite flow, from non-traditional employment to ongoing employment, was over three times as large, proportionally. This, along with significant flows from non-traditional work to unemployment and not in the labour force, helps to explain why non-traditional

employment is a transitory state, not a destination for most non-traditional employees.

Table 5.1 **Labour market flows,[a] 2001 to 2003, per cent of total in 2001**

	Destination '03					
Origin '01	*Ongoing '03*	*Non-traditional '03*	*Self-employed/ employers '03*	*Unemployed '03*	*NILF '03*	*Total*
	%	%	%	%	%	%
Ongoing '01	78.2	11.9	3.1	0.9	5.9	100.0
Non-traditional '01	37.9	45.9	3.3	3.5	9.4	100.0
Self-employed/ employers '01	8.7	7.2	75.3	0.8	8.0	100.0
Unemployed '01	24.1	29.6	3.2	19.9	23.1	100.0
NILF '01	8.6	12.4	3.2	5.6	70.3	100.0

a The transition 'Ongoing '01 – Ongoing '03', for example, is larger in this table than in figure 5.2 because people who enter a form of employment other than ongoing employment in 2002 are included in the category 'ongoing employees' of table 5.1, but are not included in the transition 'Ongoing '01 – Ongoing '03' of figure 5.2. **NILF** not in the labour force.

Data source: Productivity Commission estimates derived from HILDA 2001 and 2003 surveys, release 3.0. Refer to table B.14 of appendix B for transitions data.

Of those who were unemployed in 2001, by 2003, a quarter (24.1 per cent) were ongoing employees, and a somewhat larger proportion (29.6 per cent) were non-traditional employees. That is, non-traditional work is a slightly more important means of obtaining employment than directly securing ongoing work.

Not all of those unemployed in 2001 obtained employment. Almost a quarter (23.1 per cent) had exited the workforce by 2003. Proportionately, the exit rate from the workforce of the three forms of work shown in table 5.1 was far smaller than that from unemployment.

While some of those leaving the workforce may have permanently retired, others remain marginally attached to the workforce. Of those who were not in the labour force in 2001, by 2003, less than a tenth (8.6 per cent) were ongoing employees, while an eighth (12.4 per cent) were non-traditional employees.

It is noteworthy that while the unemployed are around 20 per cent more likely to obtain non-traditional than ongoing work, those not in the labour force are 45 per cent more likely to obtain non-traditional than ongoing work. The greater use of non-traditional work by those formerly not in the labour force could be the result of various factors, including: the length of time since a person last worked; the extent of previous workforce experience; the existence of relevant skills; and differences in the work objectives of the unemployed and those not in the labour force. The different characteristics of those two groups could result in employers offering those

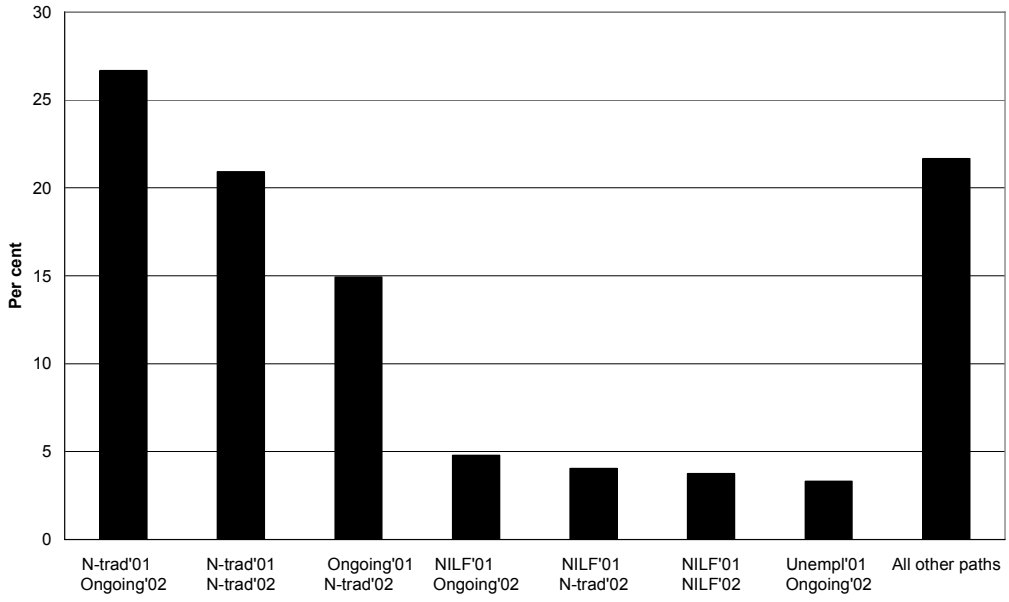
not in the labour force non-traditional employment rather than ongoing employment. In addition, the greater use of non-traditional work by those who were not in the labour force in 2001 could be partly due to the work and leisure preferences of that group.

Of those who where self-employed/employers in 2001, by 2003, 8.7 per cent were ongoing employees, 7.2 per cent were non-traditional employees and 8.0 per cent were not in the labour force. Few of those who were self-employed/employers in 2001 were unemployed (0.8 per cent) by 2003. This suggests that almost all of the self-employed/employers either have the skills necessary to secure alternative work if their business is not successful, or do not actively seek further employment.

Pathways to ongoing employment

Considering those who moved into ongoing employment in 2003 from another form of employment in either 2001 or 2002, almost two-thirds (62 per cent) used one of three pathways, and each of those pathways involved the use of non-traditional employment, either as an origin in 2001 or a step in 2002 (figure 5.3).

Figure 5.3 **Pathways to ongoing employment,[a] from 2001 to 2003**



a The first column, labelled 'N-trad'01 Ongoing'02', indicates that 27 per cent of the people who obtained ongoing employment by 2003, changed their employment from non-traditional in 2001, to ongoing in 2002, and remained ongoing employees in 2003. **NILF** not in the labour force. **Unempl** unemployed. **All other paths** contains all other pathways, including, for instance, those who were self-employed/employers in 2001, but became ongoing employees by 2003.

Data source: Productivity Commission estimates derived from HILDA 2001–03 surveys, release 3.0. Refer to table B.14 of appendix B for transitions data.

Whereas the first and second most important pathways involved a transition from non-traditional employment to ongoing employment, the third pathway is different from the first two in that it involves 'cycling' between labour market states. That is, some ongoing employees in 2001 became non-traditional employees in 2002, but regained ongoing employment by 2003. The specific forms of non-traditional employment involved in this cycling are investigated in section 5.3.

This analysis can be extended by summing over *all* pathways to gain a measure of the importance of non-traditional employment to people who obtained ongoing employment by 2003, but who were not an ongoing employee for all of the three years (table B.14). This indicates that three-quarters (74 per cent) of people who moved into ongoing employment by 2003 worked as non-traditional employees in either 2001 or 2002. Of these, over two-thirds (69 per cent) were non-traditional employees in 2001, and around one-third (31 per cent) were non-traditional employees in 2002, but not in 2001. That is, non-traditional work was a major pathway for most people who obtained ongoing employment by 2003 but were not ongoing employees in 2001.

Pathway analysis can also be used to assess the importance of non-traditional work for people who were not employed in 2001.[39] Of the 29.8 per cent of people not employed in 2001, more than twice as many gained employment by becoming a non-traditional employee (4.2 per cent) as gained employment by becoming an ongoing employee (1.8 per cent) in 2002. As previously illustrated, many non-traditional employees find ongoing employment in subsequent years. Of the 4.2 per cent of people who did not have a job in 2001, and who gained employment as non-traditional employees in 2002, almost a quarter (1.0 per cent) had secured ongoing employment by 2003, compared with the half (2.1 per cent) who remained employed as non-traditional employees. Another quarter (1.0 per cent) reverted to not working, a phenomenon sometimes referred to as 'churning'.

In sum, analysis of labour market transitions suggests that most employee labour market turnover revolves around movements between non-traditional and ongoing employment, not unemployment. There is a rapid turnover of most of the unemployed, but relatively little movement into and out of self-employed/employers. While, in proportionate terms, there is relatively little movement into and out of the labour force, the story is slightly more complex as the magnitude of the flow from not being in the labour force to employment is over twice that from unemployment to employment. Those not in the workforce, but marginally attached to it, include 'discouraged job seekers' and those who leave work to study with the intent of returning to employment. Research by Gray et al.

[39] That is, people who were either unemployed or not in the labour force.

(2005) suggests that the characteristics of the marginally attached are between those of the unemployed and those unreservedly out of the labour force. What proportion of those not in the workforce belong to the marginally attached was not investigated in this study.

5.2 Employee labour market transitions

Non-traditional work is not homogeneous. As shown in chapter 4, casual employees are very different from fixed-term and ongoing employees, and somewhat different from labour hire employees. This section therefore investigates the flows between the 'employee labour market' states, including those seeking employment, the unemployed. That is, the self-employed/employers and those not in the labour force are excluded. Any person who was initially in, or entered those states, for example, by becoming an employer in any one of the three years, is excluded from the analysis. The pattern and method of analysis is similar to the previous section (persistence, destinations and pathways). As casual employees have different characteristics to other non-traditional employees, the persistence rates of the categories of casual employees examined in chapter 4 are investigated.

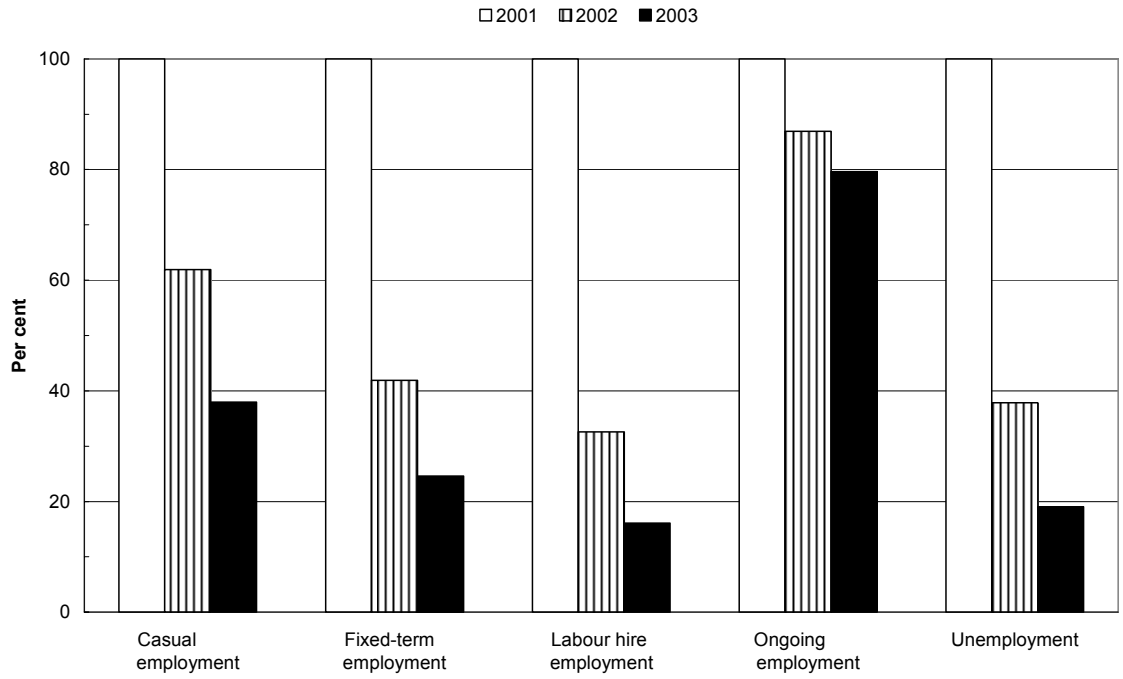
Persistence in the employee labour market

Of the five states in the employee labour market, only one, ongoing employment, mostly acts as a destination (figure 5.4). Ongoing employment is also overwhelmingly the most persistent state in the employee labour market, with over half (51 per cent) of all people in that market remaining ongoing employees from 2001 through to 2002 and 2003 (table B.15). The other employment states (casual, fixed-term and labour hire work), that is, all of the non-traditional forms of employment, each act as a pathway to other states, as their persistence rates are relatively low. The persistence rate for labour hire employment (16 per cent), is lower than that for the unemployed (19 per cent). Labour hire employment therefore acted as a pathway to another employment state for five out of six people who were labour hire employees in 2001. Similarly, only a quarter of fixed-term employees in 2001 worked as fixed-term employees in 2002 and 2003.

The persistence rate for casual employment (38 per cent), is the highest of the non-traditional forms of employment. It is also the second most persistent state in the employee labour market after ongoing employment, with 7 per cent of all people in that market remaining a casual employee in all three years (table B.15). As was apparent in chapter 4, where the characteristics of casual employment were examined, there could be several reasons for this. For some casual employees,

casual employment is a preferred state, as it meets their need for, for example, part-time employment. For others, the persistence of casual employment may, in part, relate to a person's geographical location or low level of educational qualifications and skills.

Figure 5.4 **Persistence in the employee labour market,[a] 2001 to 2003**



[a] Casual, fixed-term and ongoing employees exclude labour hire employees.

Data source: Productivity Commission estimates derived from HILDA 2001–03 surveys, release 3.0. Refer to table B.15 of appendix B for transitions data.

Destination where the employment state changed

The origin and destination of participants in the employee labour market who changed their state between 2001 and 2003 are shown in table 5.2, as a proportion of all people in each state in 2001. The main destination of people who worked as casual employees in 2001 was ongoing employment, with almost four in ten (38.1 per cent) obtaining ongoing employment by 2003. By contrast, relatively few casual employees became fixed-term employees (7.6 per cent), unemployed (4.0 per cent) or labour hire employees (3.2 per cent). Large flows to ongoing employment also occurred from the other two forms of non-traditional employment. The flow from fixed-term to ongoing employment was 55.2 per cent, and that from labour

hire to ongoing employment was 52.2 per cent.[40] From unemployment, there were two significant outflows. The larger was again to ongoing employment (33.1 per cent). However, a significant proportion of the unemployed became casual employees (27.8 per cent).

Few ongoing employees in 2001 were unemployed by 2003 (1.0 per cent). Almost all ongoing employees who lost their jobs became either fixed-term (5.8 per cent) or casual employees (5.4 per cent). As noted above, the flow from fixed-term to ongoing employment is large, and the flow from casual employment to ongoing employment, while not as large, is still substantial. In sum, these effects mean that ongoing employees who become unemployed are likely to regain ongoing employment, although they may experience a transitory period as fixed-term or casual employees.

Table 5.2 **Labour market flows,[a] 2001 to 2003, per cent of total in 2001**

Origin '01/ Destination '03	*Casual '03*	*Fixed-term '03*	*Labour hire '03*	*Ongoing '03*	*Unemployed '03*	*Total*
	%	%	%	%	%	%
Casual '01	47.1	7.6	3.2	38.1	4.0	100.0
Fixed-term '01	6.4	34.0	1.8	55.2	2.6	100.0
Labour hire '01	19.1	5.7	20.4	52.2	2.6	100.0
Ongoing '01	5.4	5.8	1.1	86.7	1.0	100.0
Unemployed '01	27.8	4.8	8.2	33.1	26.2	100.0

a Casual, fixed-term and ongoing excludes labour hire employees.

Data source: Productivity Commission estimates derived from HILDA 2001–03 surveys, release 3.0. Refer to table B.15 of appendix B for transitions data.

Employee labour market pathways

Two questions of some policy interest are now examined:

- Of those who where unemployed in 2001, what were their employment states in 2002 and 2003?
- What were the major pathways that led to ongoing employment by 2003, for those who were not ongoing employees in either 2001 or 2002?

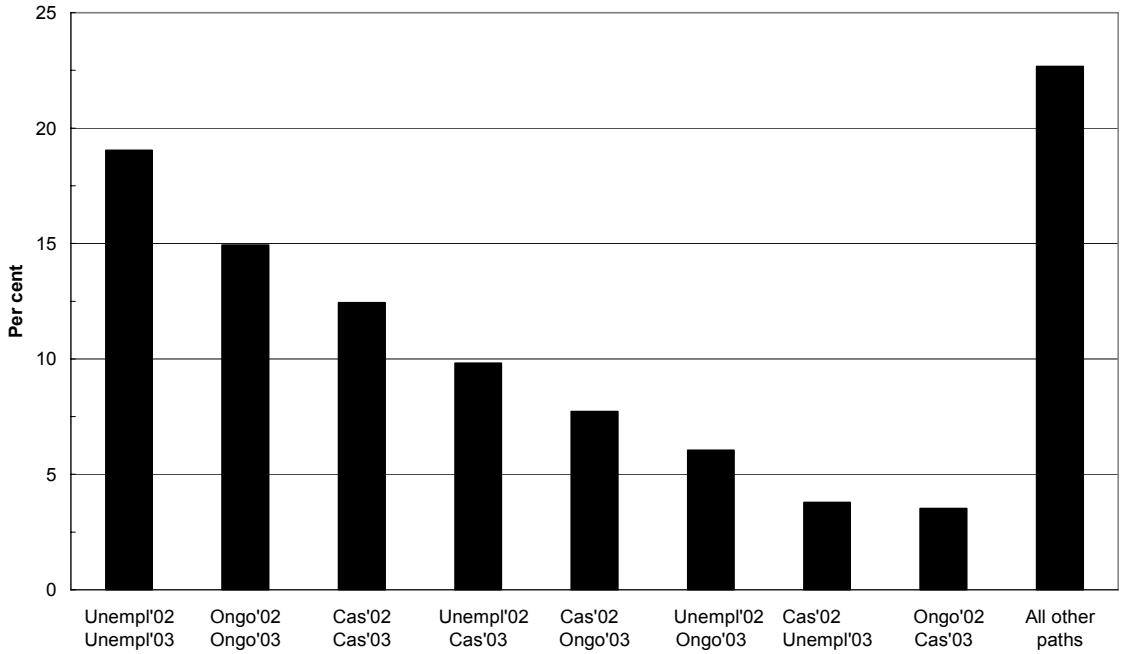
40 Note that, under the definition of labour hire used here, a small proportion of labour hire employees already state that they have an ongoing contract of employment, so that their transitions to ongoing employment may include becoming an employee of the labour hire agency's client firm.

Pathways from unemployment

Figure 5.5 sets out the states in 2002 and 2003 of those who where unemployed in 2001. The largest category comprises the fifth (19.0 per cent) that were unemployed in 2001 and remained unemployed in both 2002 and 2003.

The second largest category involves those who were unemployed in 2001, gained ongoing employment in 2002 and retained it in 2003 (14.9 per cent). The third most common pathway from unemployment led to 12.4 per cent of those who were unemployed in 2001 becoming casual employees in both 2002 and 2003. Next, a tenth (9.8 per cent) of those who were unemployed in 2001 remained unemployed in 2002, but were successful in obtaining casual employment in 2003. This is a more frequented pathway from unemployment than that leading to ongoing employment, as only 6.1 per cent of those who were unemployed in both 2001 and 2002 secured ongoing employment in 2003.

Figure 5.5 **Status in 2002 and 2003 of those who were unemployed in 2001**[a]



[a] The first column, labelled **Unempl'02 Unempl'03**, indicates that 19 per cent of people who were unemployed in 2001 were also unemployed in 2002 and 2003. **Cas** indicates a casual employee. **Ongo** indicates an ongoing employee. Casual, fixed-term and ongoing exclude labour hire employees. **All other paths** includes all other pathways from unemployment in 2001. For example, 'Labour hire'02 Ongo'03'.

Data source: Productivity Commission estimates derived from HILDA 2001–03 surveys, release 3.0. Refer to table B.15 of appendix B for transitions data.

The data underlying figure 5.5 also suggest that the risk of unemployed persons gaining non-traditional employment in one year, only to revert to unemployment the next, is small. Only about 17 per cent of previously unemployed people working in a non-traditional job are affected by this form of churning. Factors that increase the likelihood of churning are analysed in chapter 6, in relation to casual employees.

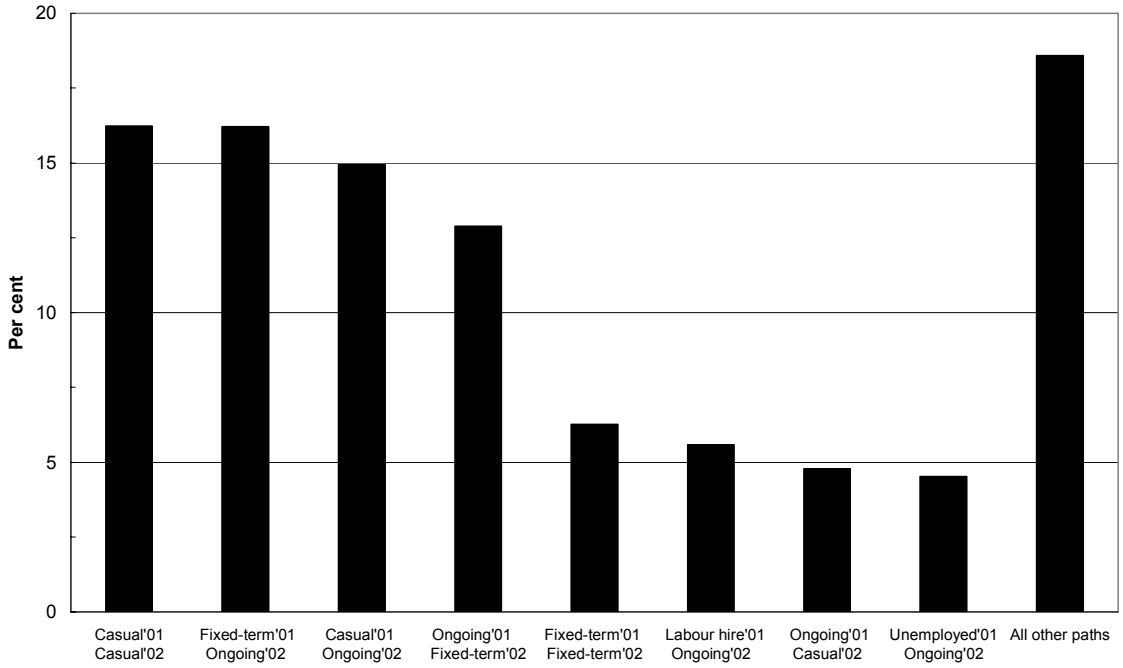
Non-traditional work assumes greater importance as a means of obtaining employment when all transitions are summed and, as before, the intermediate state in 2002 is disregarded. While four in ten (40.7 per cent) of those who were unemployed in 2001 worked as non-traditional employees in 2003, a third (33.1 per cent) worked as ongoing employees in that year, and a quarter (26.2 per cent) remained unemployed.

Pathways to ongoing employment

In figure 5.6, ongoing employment is shown to be predominately secured by initially working as a non-traditional employee. Securing ongoing employment directly after being unemployed is only the eighth most common pathway to ongoing employment. The two forms of non-traditional employment that were most likely to lead to ongoing employment were casual employment and fixed-term employment. Labour hire employment, which involved only 2.6 per cent of those in the employee labour market in 2001, was a more frequented route to ongoing employment than unemployment was.

While some cycling from ongoing employment, through non-traditional employment, and back to ongoing employment occurred, six of the eight major pathways to ongoing employment in the figure did not involve cycling.

Figure 5.6 **Employee labour market pathways to ongoing employment in 2003,[a] from 2001 and 2002**



a The first column, labelled **Casual'01 Casual'02**, indicates that 16 per cent of people who obtained ongoing employment by 2003, but were not ongoing employees for all three years, were casual employees in 2001 and 2002 before becoming ongoing employees in 2003. Casual, fixed-term and ongoing excludes labour hire employees. **All other paths** includes all other pathways to ongoing employment such as 'Unemployed'01 Unemployed'02'. Unlike in figure 5.5, those who where ongoing in each year from 2001 to 2003 are excluded.

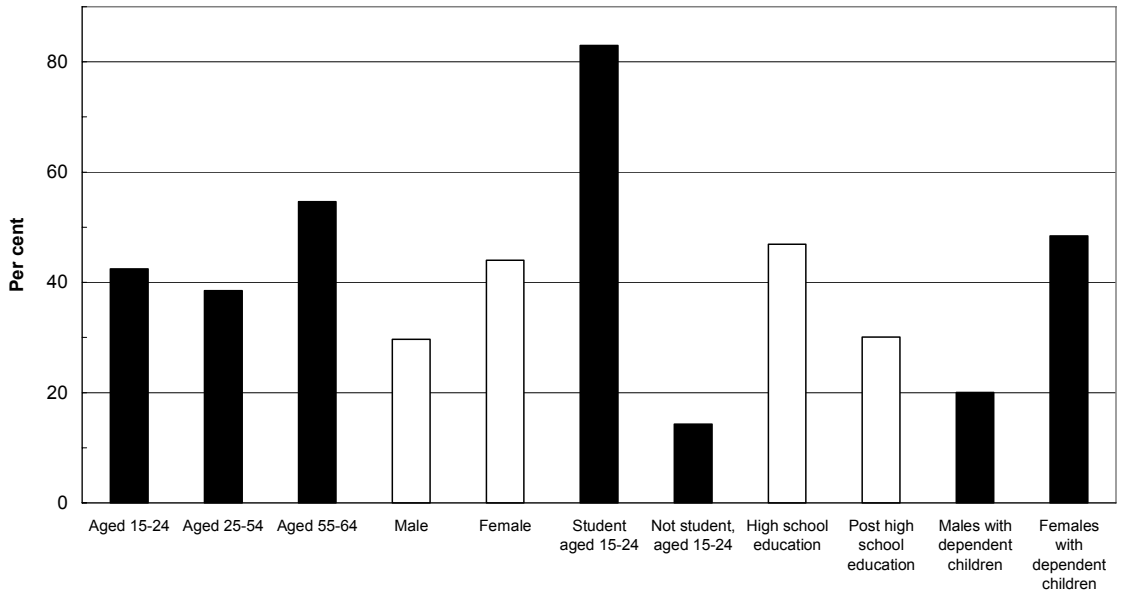
Data source: Productivity Commission estimates derived from HILDA 2001–03 surveys, release 3.0. Refer to table B.15 of appendix B for transitions data.

Persistence rates of selected groups of casual employees

The persistence rates of the categories of casual employees identified in chapter 4 are reported in figure 5.7.[41] The three age groups allow the effect of age on a person's likelihood of remaining a casual employee to be assessed. Employees aged 55 and over are more likely to remain a casual employee than those aged under 55. This is not surprising, as the overall job satisfaction of older casual employees was high (figure 4.11).

41 These data are not reported in appendix B.

Figure 5.7 **Persistence rate of selected groups of casual employees in 2003,[a] from 2001**



[a] **Student** identifies part or full-time students aged over 15 in 2001, and aged less than 24 in 2003. They may, or may not, have been a student in 2002 or 2003.

Data source: Productivity Commission estimates derived from HILDA 2001–03 surveys, release 3.0.

While casual employees aged 15–24, who are students, are the most likely of the groups in figure 5.7 to remain casual employees, those aged 15–24 who are not students are the least likely to remain in casual employment. The difference may relate, in part, to whether educational qualifications are being sought or have been obtained. Employees who have completed post-high school education, who may thus have a work specific qualification, are far less likely than those with no post-high school education to remain as casual employees. In chapter 4, those who had completed Year 12, or fewer years of education constituted almost two-thirds of casual employees.

Females appear more likely than males to remain casual employees. In chapter 4, many female casual employees with dependants indicated that their satisfaction with casual employment was high. It is therefore not surprising that the persistence rate of this group is relatively high. By contrast, males with dependent children indicated a low level of overall job satisfaction and, not surprisingly, have a low persistence rate.

Notwithstanding the apparent relationship between the characteristics of casual employees and their persistence in that form of employment, these results require

further investigation because the above interpretation is based on analysis involving only a few of the characteristics that may be relevant. As is well known, the apparent relationship between two characteristics, for example, the level of education and the persistence of casual employment, could disappear when other relevant characteristics are included in the analysis. To investigate if this is the case, the results of a multivariate analysis of those characteristics that may affect the persistence of, and transitions from, casual employment are presented in the next chapter.

5.3 Concluding comments

Analysis of the working age population (15–64) indicates that all of the non-traditional forms of work perform a valuable role in the labour market by assisting many of the unemployed, and most of those rejoining the work force, in securing work. After securing non-traditional work, many non-traditional workers wanting ongoing employment obtain it, as the persistence rates of the non-traditional forms of work are relatively low. Non-traditional work therefore acts as a well trodden pathway from non-employment to ongoing employment.

Casual employment is somewhat different from the other two forms of non-traditional work. While fixed-term employment, and especially labour hire employment, are transitory states that usually lead to ongoing employment,[42] a significant minority of casual employees remain in that state. The evidence presented in chapter 4, on the job satisfaction of students, older employees and women aged 25–54 with dependent children, may explain this persistence, as it indicates that casual employment may be a preferred state for some casual employees.

Unemployment has some similarities with non-traditional work in that it serves as a path to another labour market state, not as a destination for most of those who are unemployed. Ongoing employment, along with self-employed/employer and being out of the labour force, by contrast, act as relatively persistent states rather than pathways to another employment state. Nevertheless, those who have been unemployed for twelve months are likely to be unemployed for a further twelve months and some, unfortunately, remain unemployed for a third year.

The size of the most prevalent labour market states, that is, ongoing work and not being in the labour force, means that they also play important subsidiary roles. A significant amount of cycling occurs between ongoing employment and non-

[42] Indeed, labour hire employees are less likely to remain labour hire employees than the unemployed are likely to remain unemployed.

traditional work. That is, most of those who lose ongoing employment do not become unemployed, they secure non-traditional employment and, for the most part, quickly regain ongoing employment.

In terms of size, but not proportion, people who were not in the labour force were a more important source of labour than the unemployed, by a factor of two. This may occur because a proportion of those not in the labour force remain marginally attached to the labour force.

The persistence rate of casual employees is higher than that of fixed-term and labour hire employees. A comparison of the measure of overall job satisfaction presented in chapter 4 and the persistence rates of selected groups of casual employees, suggests that casual employees who value casual employment (students, older workers and females with dependent children) may have relatively high persistence rates. Casual employees who are dissatisfied with casual employment, for example, males with dependent children, have a low persistence rate. Education appears to be negatively related to the persistence of casual employment. Those with post-high school education, and who may thus have work specific qualifications, are less likely to remain a casual employee than those with only a high school education.

6 Casual employment: stepping stone or trap?

Key points

- Much of the public debate surrounding the impact of non-traditional work on the wellbeing of workers is cast in terms of whether casual employment is:
  - a useful precursor to ongoing employment (the 'stepping stone' hypothesis); or
  - a persistent state (the 'trap' hypothesis); or
  - only a temporary escape from being without work (the 'churn' hypothesis).
- Quantitative analysis in this chapter sheds light on some of the factors associated with each of the three above scenarios occurring.
- The main factors associated with the realisation of the stepping stone scenario are:
  - a casual employee's industry of employment; and
  - working full-time or preferring to work more hours.
- Factors that hinder the stepping stone effect and, therefore, increase the risk of a trap scenario include:
  - a poor command of English; and
  - a long unemployment history.
- Factors that alleviate the risk of a trap scenario, in addition to those which promote the stepping stone effect, include:
  - being between 35 and 39 years of age; and
  - having a household income above the lowest quartile.
- Finally, factors that increase the risk of churn between casual employment and not working include:
  - being female and married;
  - having a disability; and
  - being a post-1985 immigrant.
- These results suggest that there is a case for encouraging people not currently in work to obtain casual employment if they cannot gain ongoing employment. However, 'Welfare to Work' policies should include measures designed to mitigate the negative effects of factors that increase the risk of workers becoming trapped in non-traditional work, or of churning in and out of it.

6.1 Introduction

In this chapter, selected results of an analysis of factors affecting the labour market transitions of casual employees are summarised. Detailed results, and underlying methodological information, are provided in appendix C. The focus of the analysis is on casual employees because, of the four non-traditional forms of employment, casuals are the most numerous (see chapter 2). Consequently, enough transitions are observed, in successive waves of the HILDA survey, to allow for robust estimates of the factors affecting those transitions.

Much of the debate about the role of non-traditional work in the Australian labour market has centred on casuals (Watson 2005a; May et al. 2005; Pocock et al. 2004a). Questions such as whether casual work represents a 'stepping stone' or a 'trap', and whether casual workers mostly 'churn' between employment and unemployment are of ongoing public and policy interest (Barresi 2005a; Pocock et al. 2004a; DEWR 2004). The following sections outline the factors that are found to be significantly associated with:

(i) the transition from casual employment to ongoing employment (the stepping stone hypothesis); or

(ii) the transition from casual employment to non-employment (being unemployed or not in the labour force) (the churn hypothesis); and

(iii) persistent casual employment (the trap hypothesis).[43]

Prior to the discussion of these factors, two caveats are in order:

- In the analysis, a casual employee making a transition to another labour market state has been observed to be a casual for, at most, two years. It is likely that, in some cases, the transition marks the end of a longer period spent in casual employment. The length of that period might influence the probability of making a transition. However, the HILDA survey began in 2001, which means that the transitions data are truncated prior to that year.
- The transition probabilities presented below are based on data for three successive years (2001–03). This is a relatively short time span with which to analyse the dynamics of employment transitions, particularly the probability of cycling between two states. Also, the small number of years available precludes examination of the effects of the business cycle on transition probabilities

[43] Transitions to two other states — fixed-term employee and self-employed/employer — are also modelled, but are not detailed here for brevity. Refer to appendix D for details of those transitions.

(Constant and Zimmermann 2004). In time, additional waves of HILDA data should allow these issues to be resolved.

6.2 For whom is casual employment a stepping stone?

A person's industry of employment is, in some cases, strongly associated with the probability of moving from a casual to an ongoing position. Casuals employed in industries such as electricity, gas and water, and health and community services, have a probability of becoming ongoing which is between 10 and 61 percentage points higher (column three in table 6.1) than in the industry selected as a comparator (accommodation, cafés and restaurants). Other industries, such as mining and construction, have no discernable effect, compared to the reference industry. Only in agriculture, forestry and fishing do casuals stand a smaller chance of becoming ongoing than they do in accommodation, cafés and restaurants.

The influence of some industries on the probability of a casual employee moving to an ongoing position may be a reflection of the relative bargaining power of employees and employers in those industries. That balance may, in turn, depend on industry specific considerations, such as skills shortages and the industrial relations arrangements in place.

A casual employee working full-time has a probability of becoming ongoing that is 17 percentage points higher than that of a casual working part-time. A preference for more hours is also positively associated with the probability of moving from casual to ongoing employment. Assuming that casuals who work full-time would prefer to be ongoing, and that ongoing jobs are more likely to be full-time and thus satisfy those who want more hours, then these results suggest that current employers tend to respond positively and fairly rapidly to their workers' preferences.

These results may also signal, in part, that casuals who are dissatisfied with their lack of hours or job security are able to secure an ongoing job with another employer, on the strength of their work experience. This interpretation is consistent with the positive association, reported in table 6.1, between a worker's self-assessed probability of voluntarily leaving his or her current casual job, or of finding and accepting another job that is as good as the current one, and the probability of becoming an ongoing employee.

Table 6.1 **Determinants of the transition from casual employment to other labour market states[a,b]**

	Marginal effect of variable on the probability of moving from casual employment to:			
Explanatory variable	*Casual employment*	*Ongoing employment*	*Unemploy-ment*	*Not in the labour force*
Demographic characteristics				
Female and married				0.0219
Aged 35–39	-0.0909			
Aged 40–44		-0.0626		
Aged 60–64			-0.0009	
Has disability				0.0353
Language and migration				
Spoken English poor	0.2552	-0.2016	-0.0055	-0.0453
Post-1985 immigrant				0.0281
Education				
Year 12			-0.0003	-0.0169
Full-time student			-0.0019	
Household characteristics				
Partner unemployed			0.0007	
HH income quartile 2	-0.0688			
HH income quartile 3	-0.0829			
HH income quartile 4	-0.0775			-0.0238
Work and unemployment experience				
Years unemployed	0.0165	-0.0185		0.0026
Tenure with employer (years)			-0.0001	
Current employment				
Prefers more hours		0.0556		-0.0167
Employed full-time	-0.1735	0.1697		-0.0280
Labour hire employee	0.0762			
Chance of finding another job (%)	-0.0010	0.0009		
Chance of leaving job (%)	-0.0013	0.0010	0.0000	0.0003
Workplace has 20 or fewer employees			0.0026	0.0126
Occupation				
Manager and administrator	0.3282	-0.2556	-0.0019	-0.0502
Professional	0.1136	-0.1260		
Associate professional				-0.0281
Advanced clerical and service	0.1479	-0.1110	-0.0019	-0.0391
Intermediate production and transport			-0.0012	
Elementary clerical, sales and service			-0.0009	
Location				
Victoria			-0.0003	
Queensland			-0.0003	
South Australia	0.0705	-0.0738		
Western Australia			-0.0004	

(Continued next page)

Table 6.1 **(Continued)**

Explanatory variable	*Marginal effect of variable on the probability of moving from casual employment to: Casual employment*	*Ongoing employment*	*Unemploy-ment*	*Not in the labour force*
Location (continued)				
Northern Territory	-0.3531		-0.0006	
Industry				
Agriculture, forestry and fishing		-0.0842		
Mining			-0.0010	
Manufacturing	-0.1759	0.1876	0.0053	
Electricity, gas and water	-0.6159	0.6094	0.0295	-0.0517
Wholesale trade	-0.2572	0.2308	0.0015	
Retail trade		0.0951	0.0015	
Communication services	-0.2251	0.1714		
Finance and insurance			0.0062	-0.0517
Property and business services	-0.1758	0.1401		
Government administration and defence			-0.0010	
Health and community services	-0.1401	0.1130	0.0026	
Personal and other services	-0.2180		-0.0010	
2002–03 transition identifier (year effect)	-0.0530	0.0527		

a Only variables for which at least one marginal effect is significant (at the 10 per cent level or better) are shown in this table. An empty cell indicates a lack of significance of that effect. **b** See appendix D for details of the estimation and the calculation of the marginal effects. **HH** household.

Source: Productivity Commission estimates based on the HILDA survey, 2001–03, release 03. Refer to appendix D for details.

The probability of moving from casual to ongoing appears to be time dependent; the year effect variable indicates that this probability was 5 percentage points higher in 2002–03 than in 2001–02. A possible explanation is that, as the unemployment rate fell and the job market tightened from 2001 to 2003, casuals stood an increasing chance of being made ongoing in the same firm or obtaining an ongoing position with another firm.

Alongside positive influences, a number of factors reduce the probability of a casual employee becoming ongoing. For example, as discussed in chapter 3, some employers may regard casual employment as insurance against 'risky' workers. This could explain why, the longer a casual employee's previous unemployment history, the lower the probability of becoming ongoing (table 6.1).

Casuals aged between 40 and 44, or who live in South Australia, or who have a poor command of English, also face significantly reduced chances of obtaining an ongoing position. Finally, casual managers, professionals, and advanced clerical and service workers are relatively less likely to obtain an ongoing position.

6.3 For whom is casual employment a persistent state?

The factors associated with a low probability of making the transition from casual to ongoing employment, discussed above, are to a large extent the same as those associated with the persistence of casual employment (column 2 in table 6.1). To illustrate, the reduced probability of casuals with poor English skills becoming ongoing is entirely due to the greater probability that this group will remain casuals from one year to the next (rather than, for example, leaving the labour force).

However, the symmetry between columns 2 and 3 in table 6.1 is not exact. One notable difference is age: being aged between 40 and 44 does not increase the probability of remaining a casual, while being between 35 and 39 decreases that probability. Another difference is that being employed through a labour hire agency increases the likelihood of remaining a casual employee, whereas it has no effect on the probability of becoming ongoing.[44] This result, combined with the transitory nature of labour hire employment (see chapter 5), suggests that it is worker characteristics other than employment through a labour hire agency that facilitate the transition to ongoing employment of some labour hire employees.

Negative influences on the probability of remaining a casual are also, in large part, the same as the positive influences on becoming ongoing, described in the previous section. For example, being in full-time work decreases the probability of remaining a casual, at the same time as it enhances the probability of becoming ongoing. However, several other characteristics that decrease the likelihood of remaining a casual have no significant counterpart in column 3. First, the higher a person's household income, the lower the probability of remaining a casual from one year to the next. Second, working in the personal and other services industry lowers the chance of remaining a casual employee. Third, residing in the Northern Territory increases the probability of moving out of casual employment.

6.4 Who is at risk of reverting to non-employment?

Having a disability is associated with a 3.5 percentage point increase in the likelihood of a casual employee moving out of the labour force within one year (column 5 of table 6.1). Other characteristics that also increase the probability of becoming non-employed are: being a married woman; being a post-1985 immigrant; and reporting a greater chance of leaving one's job voluntarily.

44 The explanation behind this apparent contradiction is that employment through a labour hire agency reduces the probability of a casual moving to a fixed-term employee or a self-employed/employer position (irrespective of whether that position is provided through a labour hire agency or not) (table D.5 in appendix D).

Working as a casual in a workplace with 20 or fewer employees increases the chance of becoming unemployed, and also of leaving the labour force (columns 4 and 5, respectively, of table 6.1).

The longer a person was unemployed, prior to working as a casual, the greater the chance of moving out of the labour force the following year. This is consistent with the hypothesis that unemployment has a 'scarring' effect, ultimately resulting in job seekers becoming discouraged. Alternatively, this result could reflect skill atrophy on the part of the unemployed, and increasing difficulty in re-adapting to the work environment.

Among the factors that reduce the probability of leaving the labour force, many also increase the probability of being made ongoing: wanting to work more hours; working full-time; and working in the electricity, gas and water industry (table 6.1).

Somewhat unexpectedly, casuals in high income households have a reduced probability of leaving the labour force. One might expect that these casuals would face no financial pressure to remain employed and would, therefore, have a greater propensity to exit the labour force. It may be that their household's financial capacity means that such persons can, for example, afford paid child care in order to continue working (see section D.3 in appendix D).

The following groups are both less likely to leave the labour force or to become unemployed: persons with a poor command of English; and managers and associate professionals (relative to labourers). Surprisingly, having an education level of up to Year 12 reduces the risk of not being in employment.

In only two industries, electricity, gas and water, and finance and insurance, is the probability of leaving the labour force lower than in the reference industry. Employment in those industries, however, increases the probability of a casual becoming unemployed. More generally, the risk of moving to unemployment is increased in about twice as many industries as it is reduced.

Unemployment risk factors for casuals include: having a partner who is unemployed; residing in New South Wales, South Australia or the Australian Capital Territory; and reporting a greater likelihood of voluntarily leaving one's job in the next twelve months.

Factors that lower the risk of unemployment for casuals include: having a longer employment tenure; being between 60 and 64 years of age; and being a full-time student.

6.5 Policy implications

The results outlined above may hold some lessons for labour market policy, especially in light of the 'Welfare to Work' reforms coming into full effect on 1 July 2006. These reforms are based on the conviction that the best form of family income is from paid employment, and that working age Australians with a capacity to work have an obligation to participate in the workforce (Andrews 2005b). The reform package includes special measures to assist welfare recipients and the long-term unemployed in securing employment (for example, services such as Employment Preparation, RapidConnect, Personal Support Programme, Workplace Modifications Scheme).

The 'work first' approach embodied in the Welfare to Work package rests in part on the view that disadvantaged workers who can be assisted into jobs will, in time, progress from low paid, casual jobs to better paid, ongoing jobs (DEWR 2004). The quantitative results presented in this chapter may assist in identifying ways to maximise this stepping stone effect, and reduce the trap and churn effects for those workers who have moved from welfare to casual employment.

Based on the above results, it might be argued that maximum effectiveness would be achieved by targeting characteristics that have large effects — both positive and negative — on the probability of casuals making or not making a particular transition.[45] In many cases, however, the largest effects are those associated with employment in a particular industry. For example, working in the electricity, gas and water industry has the largest positive association with the probability of a casual employee becoming ongoing. This type of characteristic is not amenable to direct policy intervention. Occupation, state of residence, and age are other variables with large effects on transition probabilities, but which are largely out of reach of policy makers.

Other results have greater relevance for policy, in that they allow the identification of 'at risk' groups in the labour force. Such groups possess personal characteristics that make them more susceptible to the trap and churn effects. Each group may not be large, but policy interventions targeting several of them might provide large payoffs in terms of reduced government transfers and increased labour force participation.

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45 This strategy should not be confused with aiming to change the way in which a particular characteristic affects the probability of transition. For example, the reduced probability of becoming ongoing for casual employees who are aged 40 to 44 might be due, in part, to age based discrimination. Reducing that form of discrimination would alleviate the handicap linked to age, but not change age *per se*.

In a study of the effectiveness of employment assistance programs (DEWR 2004), the following factors were found to be associated with an increased risk of sporadic employment or non-employment at the three- and twelve-month mark after the assistance ended: having a non-English speaking background; having a disability; and having a low level of education. These factors are also in evidence in the results presented in this chapter, based on a wider and more representative population sample. Below, some of the policies that might be considered for selected 'at risk' groups are discussed briefly:

- Spoken English is poor — A deficient command of English by immigrants is associated with a 20 percentage point reduction in the probability of becoming ongoing. The link between a lack of English ability and less favourable labour market outcomes has also been noted in other studies of immigration (Productivity Commission 2006). Given that casual employees with a poor command of English numbered 20 000 on average over the 2001–03 period, a lower probability of progressing to ongoing employment has the potential to affect the welfare of many workers. A policy designed to enhance the stepping stone effect might provide incentives for employers to offer language training to their casual employees from non-English speaking backgrounds. Because this type of training holds benefits for the employee as well as the employer, a financial contribution from the employee would increase the efficiency of this measure.
- Unemployment duration — Results indicate that a long unemployment history might have a scarring effect, by reducing a casual employee's chance of exiting that form of employment, except to leave the labour force altogether. A cumulative unemployment duration of ten years decreases by almost 20 percentage points the probability of a casual employee becoming ongoing. Scarring is a form of market failure, because it implies that characteristics other than current labour productivity influence a person's probability of making the transition from casual to ongoing employment. Policies designed to reduce the time spent in unemployment may, therefore, improve efficiency in the labour market. By reducing the trap and churn effects for casuals, these policies could result in increased labour force participation and productivity.
- Disability — As part of its Welfare to Work legislation, the Australian Government has argued that some people with disabilities, who would previously have received the Disability Support Pension, are capable of being employed, at least in a casual or part-time capacity. From 1 July 2006, the Government will require that people with disabilities who are assessed as being capable of working fifteen or more hours per week be transferred to the Newstart allowance and actively seek paid employment. Results reported in this chapter, and detailed in appendix A, show that people with disabilities who are in casual

employment are 30 per cent more likely than the average person to exit the labour force within one year (table 6.1).[46] This suggests that, in order to alleviate churning, targeted government measures to assist people with disabilities in gaining employment should be complemented by ongoing support once a person is employed.

Finally, it is worth noting that policy interventions that have been called for by some are not supported by the analysis presented in this chapter. For example, a requirement for employers to make casual employees ongoing after six or twelve months of service (ACTU 2002) does not appear to be necessary, since casual employees who work full-time, or would prefer to work more hours, are already much more likely to become ongoing. It may be argued that mandating the conversion of some casual jobs into ongoing jobs would result in broadly the same individuals making the transition. However, such a measure would be likely to hurt the employment prospects of the remaining casual employees.

46 It may be that the heightened risk of leaving the labour force when a disability is present is a reflection of the work incentive structure that existed in 2001–03, that is, *prior* to the introduction of the new job search requirements for people with disabilities. This issue requires further investigation.

7 The contribution of non-traditional work to family income

Key points

- Non-traditional work is an important source of income for many families, with one in four Australian families earning the majority of its wage income from non-traditional work. These families may be described as 'non-traditional wage' families. However, three quarters of families are 'traditional wage' families.
- Families that earn most of their wage income from non-traditional work are only a majority in the lowest family income decile. In part, this occurs because many of the families in the lowest decile are comprised of a single person.
- For households earning more than the median income, non-traditional wage earners are generally not the primary wage earner in their family. Some of these individuals may be students employed as casual employees who live with their parents. Nevertheless, 41 per cent of non-traditional wage earners in families earning more than the median income are the primary wage earner in their family. That is, for many families earning more than the median level of income, non-traditional work is an important source of family income (including in the highest income decile).
- Disaggregation of total family income into four sources (non-traditional wage income; ongoing wage income; government transfers; and non-wage private income) indicates that there are substantial differences between the earnings of non-traditional and traditional wage families. As a proportion of average total family income:
  - the wage income of traditional wage families exceeds that of non-traditional wage families by 15 percentage points;
  - in the two lowest income deciles, government transfers to non-traditional wage families exceed transfers to traditional wage families by more than 10 percentage points; and
  - excluding the two lowest income deciles, the non-wage private income of non-traditional wage families exceeds that of traditional wage families by almost 12 percentage points.
- The greater relative importance of non-wage income for non-traditional wage families suggests that any wage differentials between traditional and non-traditional workers are only partly reflected in total income differences between non-traditional and traditional income families.

The relationship between non-traditional work and family income is examined in this chapter.[47] This is done by considering the financial contribution of all family members in a 'usual' working week. Families that earn most of their wage income from non-traditional work are termed 'non-traditional wage families'. They are compared with families earning most of their wage income from ongoing work ('traditional wage families').[48] In addition to wage income, non-wage payments to families from government and private sources are considered, as this income is important for many families. Private non-wage income may be obtained from many sources, including, interest on savings and workers' compensation payments.

7.1 Introduction

Dunlop (2002) has suggested that some non-traditional workers, especially casual workers, may remain in low paid jobs with little opportunity to improve their position because they have poor access to training. This disadvantage could also pass between generations. Research by Dahl and Lochner (2005), using data from the United States, indicates that there is a positive relationship between family income and the academic achievement of children.

The claim that '[m]any … workers are doing it tough – [and are] stuck in low-paid, low-skilled and insecure jobs' is common (DIIRD 2003, p. 6). Several theories of the operation of the labour market may explain that view. Piore (1970), for example, developed the idea of a dual labour market which is segregated into a primary sector — that offers high wages, job security and the chance of advancement — and a secondary sector — that offers low wages and little opportunity for advancement (see chapter 3). Ongoing work could be equated with working in the primary sector and non-traditional work with working in the secondary sector. Rubery (1978) extended the analysis by suggesting that it is not only individual characteristics, such as skill, that determine which of those sectors an individual is assigned to, but that institutions are important. That is, the institutional characteristics of an economy partly determine the proportions of ongoing and non-traditional work on offer.

However, evidence has been presented to suggest that those models may not correctly represent the operation of the labour market for many non-traditional

47 The data used for this analysis relate to all households, not just families. However, as 96 per cent of households are occupied by a single family, the term 'family' is used. The remaining 4 per cent of households are called 'Other households' and consist of unrelated individuals and multifamily households.

48 The same concepts and measures of ongoing and non-traditional work are used in this chapter as in chapters 4 and 5, with specific modifications noted where appropriate.

workers, and by extension for many non-traditional wage families.[49] It was established in chapter 5 that the majority of fixed-term and labour hire workers, and many casual workers, secure ongoing work within two years. Such a change in form of employment could be expected to increase the incomes of those workers and, therefore, the incomes of their families. As shown in chapter 4, while many casual workers work part-time, most ongoing workers work full-time.

Headey and Wooden (2005) have shown that significant upward income mobility exists in Australia for low paid individuals, with more than six in ten workers exiting the lowest income decile over the period 2001 to 2003.[50] Further, reviewing a 1994 international study by Duncan that covered many countries, but not Australia, Bosworth et al. (1996) report that a significant proportion of families in poverty in one year were at least 10 per cent above the poverty line the next year. For many families, therefore, poverty is a transient phenomenon and of less policy interest than longer-term poverty. Some families may be able to use savings to bridge a temporary income gap, before family income reverts to its usual level within twelve months.

Sen (1999) has suggested that focusing the analysis on income poverty may be inappropriate, in the sense that it focuses attention on the outcome, low income, and not on the lack of capabilities that produced that outcome. However, other researchers (Forster and Pearson 2002, p. 15) conclude that focusing the analysis on income, particularly wage income, is warranted because '[p]ersistent poverty is closely associated with the lack of earned income.'

The analysis is based on financial year gross income, excluding windfall income, converted to weekly income.[51] Financial year data are used because they are likely to be less influenced by short-term income shocks, such as a short period of unemployment, and therefore likely to be closer to a family's normal or permanent income (Friedman 1957). That is, a family's long-term income. This concept of

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49 What proportion of casual workers have a casual work relationship, in the sense that their work is occasional, irregular or short-term, is considered in chapter 2.

50 Family income deciles are formed by ranking families according to total family income, from the family with the lowest total weekly income to that with the highest, using the HILDA 2003 survey data. The first decile, for example, comprises the 10 per cent of families with the lowest total family incomes.

51 As most individuals use their income to support their family, not just themselves, total family income is sometimes adjusted to reflect differences in the number of adults and children in a family (see, for example, De Vos and Zaidi 1997). This approach, the income equivalence approach, is not adopted here as the focus of this study is sources of wage income, not poverty. Nevertheless, the effect of adopting the equivalence approach was tested. Implementing that approach did not alter the conclusions of the analysis. Indeed, even for the study of poverty, the use of unadjusted family income has been used, for example, by Atkinson et al. (1995).

income identifies families whose members work only occasionally and may therefore be subject to long-term disadvantage. A measure based, for example, on income in survey week, might not identify these families.

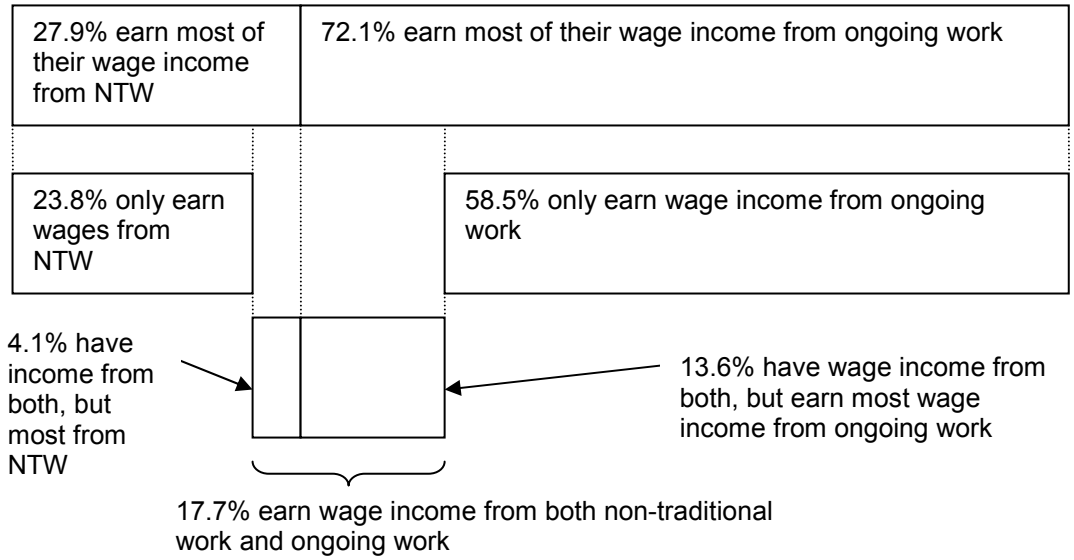
7.2 How important is non-traditional work for families?

Non-traditional work is an important source of income for many families. Of the estimated 4.7 million Australian families that earned wage income in 2003, more than one in four earned most of that income from non-traditional work (figure 7.1). Of those non-traditional wage families, more than eight in ten earned wage income only from non-traditional work. However, ongoing work is a more common source of income for families than non-traditional work, with almost three quarters of wage earning families receiving income mainly from ongoing work. Indeed, almost six in ten of the total number of families only earned income from ongoing work.

There has been little research on families reliant for the majority of their wage income on non-traditional work. However, research exists which suggests that family reliance on non-traditional income may have increased since 1984. The increase in casual work, using the relatively broad ABS definition of casual work (Murtough and Waite 2000a), is consistent with the proposition that the proportion of families dependent on non-traditional income has increased. The prevalence of casual workers increased from 16 per cent in 1984 to 26 per cent in 1999. Various surveys also indicate that labour hire employment, while remaining a relatively small proportion of the total workforce, has increased — from 1 per cent in 1990 to over 3 per cent in 2002 (Laplagne et al. 2005).

The relationship of these data to family income is not clear-cut because casual work is sometimes undertaken in conjunction with study by persons aged under 25 (see appendix table B.13) and many students live with their parents. Such individuals do not earn the majority of income in most families. It is therefore unclear to what extent any increase in casual work relates to changes in the proportion of families reliant on non-traditional wage income. As the age profile of labour hire workers is somewhat similar to that of ongoing workers, the increase in the prevalence of this form of non-traditional work may have slightly increased the proportion of families dependent on non-traditional income.

Figure 7.1 **Relative importance of wage income from non-traditional and ongoing work to families earning wage income,[a] 2003**



[a] **NTW** Non-traditional work. Non-traditional work includes casual, fixed-term, and labour hire workers. Self-employed contractors, including self-employed labour hire contractors, are excluded as they are not employees and are not identified in the HILDA survey. Employers who pay themselves a wage or salary are excluded. Only families in which one or more members earned income from non-traditional work or ongoing work are included.

Source: Productivity Commission estimates derived from HILDA 2003 survey, release 3.0.

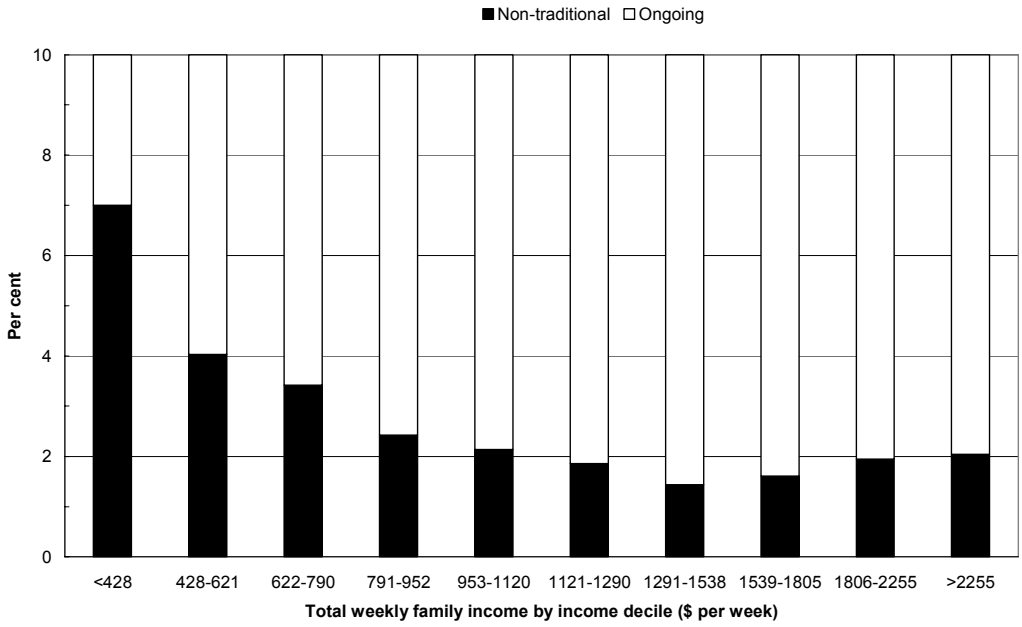
7.3 Where are 'non-traditional wage families' positioned in the distribution of family income?

Families that earn most of their wage income from non-traditional work are found in all family income deciles. However, they only dominate the lowest income decile (less than $428 per week) and are more likely to earn less than the median level of family income ($1120) (figure 7.2). By contrast, families earning the majority of their wage income from ongoing work are likely to be located in the middle to upper family income deciles, with relatively few belonging to the lowest decile.

For figure 7.3, the analysis shifts from families to the individuals who belong to them. That figure shows the distribution of all non-traditional wage earners across family income deciles. The height of each bar shows the proportion of all non-traditional wage earners located in each family income decile. For example, 16 per cent of all non-traditional wage earners are located in the first family income decile. Within each bar, the black portion measures the proportion of those non-traditional wage earners who earn the largest wage in their family. Thus, 95 per cent of non-traditional wage earners located within the first income decile are primary wage

earners. The white portion of each bar measures the proportion of non-traditional wage earners who are not the primary wage earner.

Figure 7.2 **Weekly family income, by decile, all families earning non-traditional or traditional wage income,[a] 2003**



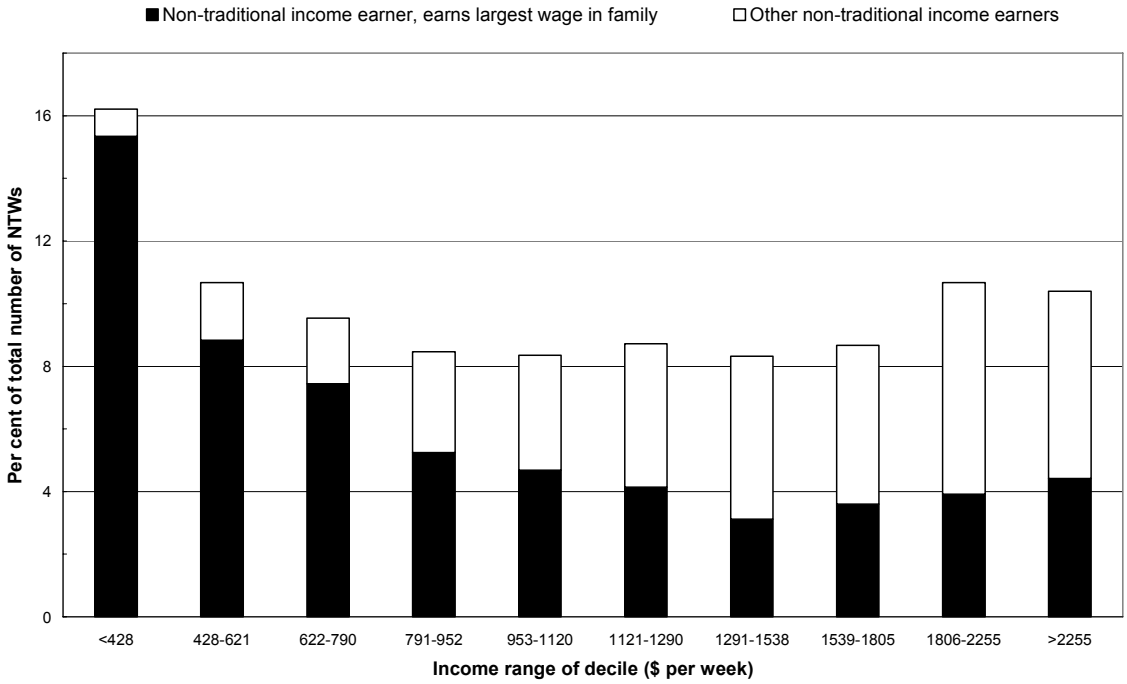
a Families that do not earn wage income are excluded. Ongoing labour hire workers are regarded as non-traditional workers. Windfall income — the sum of inheritance, bequests, redundancy and severance payments, parental transfers, payments from non-family members and other irregular sources of income — is excluded because of its one-off nature. Employers who pay themselves a salary or wage are regarded as employers, not wage earners, and are excluded. As families are included if at least one member earns any wage income, families that earn most of their income from non-wage sources are included. Where business and investment income is earned, income from that source may be negative because of expenses associated with those activities in 2003.

Source: Productivity Commission estimates derived from HILDA 2003 survey, release 3.0. Refer to table B.16 of appendix B.

The distinction between primary and non-primary wage earner is an important one (Richardson and Miller-Lewis 2002). Families for whom the largest wage earner is a non-traditional worker are likely to be dependent on that form of income. Figure 7.3 shows that, below the median family income, most non-traditional wage earners are the largest single wage earner in their family. Indeed, as indicated above, in the lowest income decile almost all non-traditional wage earners are primary wage earners. In part, this occurs because of differences in the composition of households by family income decile. For example, single person households make up a third of households earning less than the median family income (34 per cent), but only 4 per cent of households earning more than the median income.

For households earning more than the median income, non-traditional wage earners are generally not the primary wage earner in their family. Some of these individuals may be students employed as casual employees who live with their parents. Nevertheless, 41 per cent of non-traditional wage earners in families earning more than the median income are the primary wage earner in their family, that is, non-traditional income is an important source of family income (including in the highest income decile).

Figure 7.3 **Primary and non-primary non-traditional wage earners in all families, by family income decile,[a] 2003**



a NTWs Non-traditional workers. Families and individuals who do not earn any non-traditional income are not represented in the figure.

Source: Productivity Commission estimates derived from HILDA 2003 survey, release 3.0. Refer to table B.17 of appendix B.

7.4 Do the components of family income differ between non-traditional and traditional wage families?

To examine differences in the composition of family income between families earning most of their wage income from non-traditional work, and those earning most of their wage income from ongoing work, total family income is decomposed into four sources. Families may receive income from: non-traditional work; ongoing

work; government transfers; and non-wage private income. These four categories are shown separately in figure 7.4 for the two family income groups.[52]

A major characteristic of both non-traditional and traditional wage families earning less than the median income is the small contribution that the less important form of employment makes to total family income. For non-traditional wage families in those deciles, ongoing work makes little contribution to their income. Only non-traditional wage families earning more than the median level of income earn more than 5 per cent of their total family income from ongoing work, reaching a maximum of 13 per cent for non-traditional wage families in the ninth income decile. For traditional wage families, the contribution of non-traditional work to total family income is even less important. For those families, non-traditional work contributes more than 5 per cent of total family income for only the three highest income deciles.

There are substantial differences in the pattern of earnings between the two types of families. As a proportion of average total family income:

- the wage income of traditional wage families exceeds that of non-traditional wage families by 15 percentage points;
- in the two lowest income deciles, government transfers to non-traditional wage families exceed transfers to traditional wage families by more than 10 percentage points; and
- excluding the two lowest income deciles, the non-wage private income of non-traditional wage families exceeds that of traditional wage families by almost 12 percentage points.

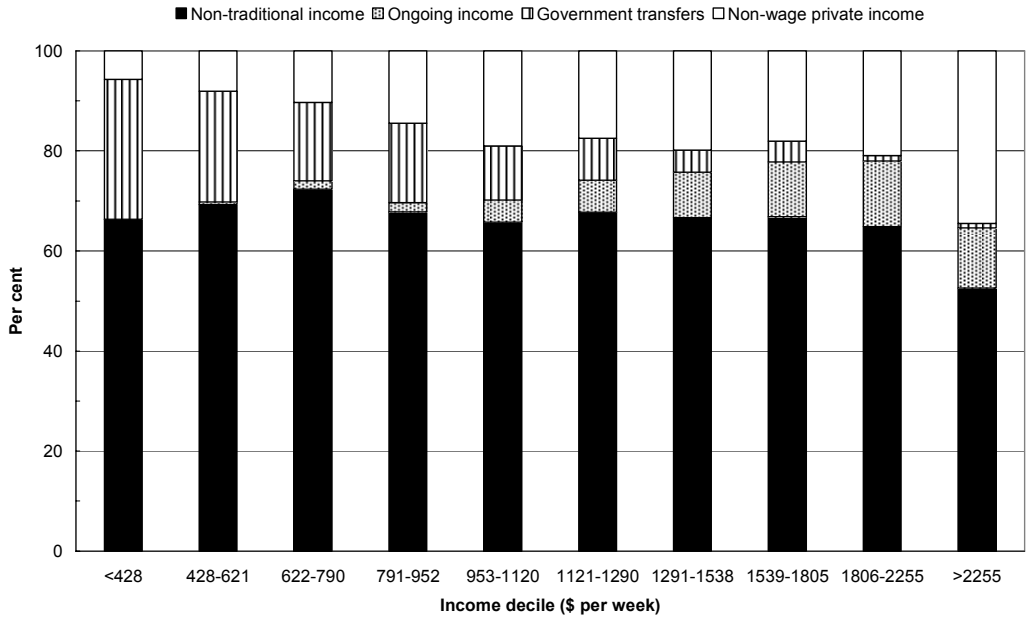
The additional government transfers, and non-wage income received by non-traditional wage families, implies that any wage difference between traditional and non-traditional workers is only partly reflected in the total level of family income earned by the two types of families.

Averaged across all families, non-traditional wage families earn two and a half times as much non-wage private income as traditional wage families do. Those payments, which are earned from a wide variety of sources, contribute between 6 per cent and 35 per cent to total family income for non-traditional wage families.

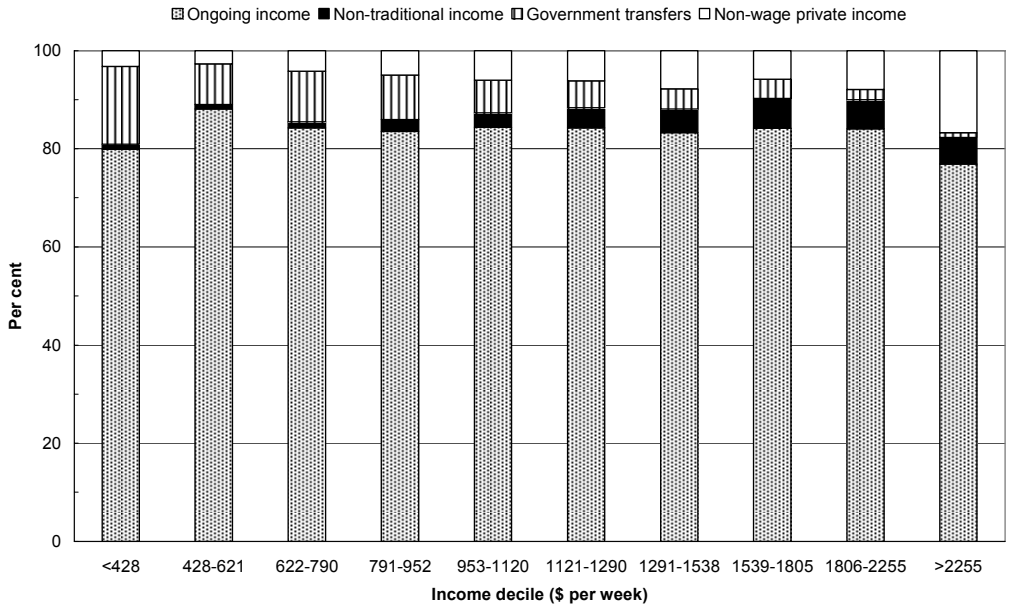
52 The relationships between these sources of income are detailed in figure 2 and in table 19 of the *HILDA User Manual* (Watson 2005c).

Figure 7.4 **Components of total family income[a], 2003**

A: Non-traditional wage income exceeds ongoing wage income



B: Ongoing wage income exceeds non-traditional wage income



a Non-traditional wage families were allocated to deciles as in figure 7.2. The four sources of income for each individual were totalled for all members of each family and are reported as the average for families in each decile. Non-wage private income includes income from: businesses; interest; rent; dividends; superannuation; workers' compensation and non-government child support payments. Losses from business and investment income may exceed revenue.

Source: Productivity Commission estimates derived from HILDA 2003 survey, release 3.0. Refer to table B.18 of appendix B.

While some non-wage private income may be classified as payments due to the ownership of capital — for example, dividends from shares — the remainder could be termed 'social compensation payments' — for example, mandated child support payments. While the relative proportions of the two broad types of non-wage payments are not known, for many lower income families, the majority of payments is more likely to be social compensation than capital ownership related (Headey and Wooden 2005). Conversely, non-wage payments to families in the highest deciles are more likely to arise from the ownership of capital assets.

7.5 Concluding comments

As research conducted by Forster and Pearson (2002) indicates, persistent poverty is closely associated with the lack of earned income, which, for most families, means wage income. Given the increased prevalence of non-traditional work, and claims by some researchers (for example, Dunlop 2002) that non-traditional work is linked with low or precarious wages, it is important to know how family income is affected by non-traditional work.

Non-traditional work is an important source of income for many Australian families. More than one in four families that earned wage income in 2003 earned most of it from non-traditional work. However, ongoing work is far more common, with almost three-quarters of families earning most of their wage income from ongoing work.

While non-traditional wage families are found in all income deciles, they only dominate the lowest income decile. For the second and third income deciles, they comprise around 40 per cent of families, and for the fourth income decile and above, they comprise around 20 per cent of families in those deciles.

In families comprising some non-traditional wage earners and earning less than the median income, non-traditional workers are usually the primary wage earner. In families comprising some non-traditional wage earners and earning more than the median income, most non-traditional workers are not the primary wage earner. However, even in the highest income deciles, four in ten of non-traditional workers are their family's primary wage earner. That is, even for families in the upper half of the income distribution, non-traditional wage income is a significant contributor to family income.

Examination of the wage and non-wage components of family income shows that wage income forms a larger proportion of total income for traditional wage families than for non-traditional wage families, across all deciles. This occurs because, while non-traditional wage families in the lowest two deciles receive more government

transfers than traditional wage families, non-traditional wage families in the other deciles earn more non-wage private income than traditional wage families.

The non-wage private income of non-traditional wage families forms a larger proportion of total family income than for traditional wage families, for all income deciles. Research by Headey and Wooden (2005) suggests that, for all bar the highest income families, most non-wage private income is what may be termed 'social compensation payments', rather than income from the ownership of capital.

The greater relative importance of non-wage income for non-traditional wage families suggests that any wage differentials between traditional and non-traditional workers are only partly reflected in total income differences between families.

8 Summary and conclusions

This paper set out to examine the role and the importance of non-traditional work in the Australian labour market. First, it presented the most up-to-date information available about the prevalence, growth and characteristics of non-traditional work. Second, the paper examined transitions to and from non-traditional work. Third, the part played by non-traditional work as a source of family income was investigated.

In addition to the three empirical questions above, the paper sought to provide a theoretical framework that might explain some of the employment decisions made by firms, on the one hand, and workers, on the other. The validity of that framework was assessed against the empirical evidence presented.

In this concluding chapter, the main findings from the foregoing analysis are summarised and some policy implications drawn. A brief discussion of possible avenues for further research is then provided.

8.1 Prevalence and growth

A lack of consensus on definitions, and a lack of consistent data, make the measurement of the prevalence and growth of non-traditional work problematic. Nonetheless, updating previous estimates, based on 1998 data, to 2001 (and, in some cases, 2004) indicates that:

- In 2004, around 3.3 million persons were engaged in non-traditional work, representing approximately one third of all employed persons.
- While non-traditional workers probably grew in number between 1998 and 2004, the workforce share of this form of work has remained largely constant over that period.
- Casual employment is by far the largest of the non-traditional work groups, with approximately 1.9 million casuals in 2004, equivalent to 20 per cent of all employed persons. The growth in this form of employment was most rapid between 1998 and 2001 but appears to have slowed since that time, resulting in a stable share of the employed population.
- Self-employed contractors are the second largest of the non-traditional forms of employment, with around 788 000 persons, or 8.2 per cent of all employed

persons, in 2004. This category experienced a decline in both relative and absolute terms between 1998 and 2001. From 2001 to 2004, it grew in number, but not as a proportion of the workforce.

- On best estimates, the number of fixed-term employees was 0.6 million in 2004, or 7 per cent of employed persons. While it is hard to be definite, this category appears to have grown between 1998 and 2002 and declined thereafter, in both absolute and relative terms.
- Labour hire employees are likely to have numbered 0.3 million in 2004, representing 3 per cent of all employed persons. This form of non-traditional work increased in both absolute and relative terms prior to 2001. Since that time, numbers have continued to grow, but prevalence has remained stable.

Taken together, these findings suggest that, while non-traditional work makes up a large segment of the Australian labour market, its continued expansion is not inevitable, as some have argued. Without exception, the workforce shares of the major forms of non-traditional work have either levelled off or declined since 2001.

8.2 Characteristics

The population of non-traditional workers is comprised of diverse and distinct groups, so that generalisations are mostly unfounded. Using ongoing employees as a convenient yardstick reveals that many non-traditional workers have characteristics in common with that group. For example, fixed-term employees are at least as educated and skilled as ongoing employees and, like them, tend to work full-time in capital cities. Self-employed contractors have the same propensity to work long hours as ongoing employees and fixed-term employees. However, unlike these two groups, they also have a high prevalence of part-time work, second only to casual employees. Casual employees are the group least similar to ongoing employees, in that they tend to work part-time and be young, female, less skilled and more prevalent in regional and remote areas than in cities.

Finally, labour hire employees have characteristics that, by and large, fall between those of ongoing employees and those of casual employees. For example, labour hire employees work mostly full-time, but in relatively less skilled occupations.

There are also important differences within each group of non-traditional workers. Almost half of all casual employees are aged below 25, and almost three in ten of all casual employees are students. However, not all casual employees are young: 42 per cent are aged between 25 and 54. About 40 per cent of this older group have low education levels (Year 12 or lower), and about a quarter have dependants. The career progression and promotion prospects of these prime working age casuals are

likely to differ significantly from those of young casuals, especially young casuals who combine work and education. The higher expected lifetime employment and earnings of that group are probably reflected in their relatively high levels of satisfaction regarding most aspects of their job. By contrast, male casuals aged 25 to 54 with low levels of education or with dependants report low satisfaction. However, these two groups form a small proportion of casuals and a very small proportion of all employees.

Another group of casuals, those aged 55 to 64, appear satisfied with their employment. This suggests that the increased prevalence of casual employment among older workers is mainly a matter of choice, and reflects a desire to effect a smooth transition from full-time work to retirement. If opportunities for casual employment and self-employed contracting were to decrease, it is likely that some older workers would exit the labour force sooner than they wish to.

Still on the subject of work satisfaction, it is worth noting that non-traditional employees have levels of overall job satisfaction which are rated as 'high', based on accepted criteria. Except for labour hire employees, for whom it is lower, the level of overall job satisfaction of non-traditional employees is indistinguishable from that of ongoing employees. This confirms that broad generalisations are normally unfounded when comparing the wellbeing of traditional and non-traditional workers.

8.3 Transitions

This paper sheds some light on the perennial question of whether or not non-traditional work is a 'stepping stone' to ongoing employment for the unemployed and those out of the labour force. Non-traditional forms of employment assist many of the unemployed, and most of those rejoining the labour market after being out of the labour force, in securing employment.[53] Many of those who have secured non-traditional employment progress to ongoing employment. Econometric analysis indicates that casuals who work full-time, or who would prefer to work more hours, have a higher probability of making this transition, relative to other casuals.

Non-traditional work, therefore, acts as a well trodden path from non-employment (unemployed or not in the labour force) to employment, and then to ongoing employment. There is little evidence that those who gain non-traditional employment after not working are particularly at risk of reverting to their initial

[53] In terms of size, but not as a proportion of the originating group, being out of the labour force is a more important source of non-traditional employees than the unemployed, by a factor of two.

status. However, among casual employees, the presence of a disability, a long unemployment history, or an unemployed partner are all associated with a higher probability of going back to not working.

From a policy standpoint, the analysis of transitions data suggests that there is a case for encouraging those not in employment to seek non-traditional work, if they cannot obtain ongoing employment. Long or repeated spells in unemployment or out of the labour force can have a scarring effect, permanently reducing the chances of a person obtaining ongoing employment. By contrast, non-traditional work is a mostly transitory state, which often leads to ongoing employment for those who prefer it. Mandatory limits on the use of non-traditional work by firms would limit this stepping stone effect.

However, the transitions analysis also indicates that particular attention should be paid to 'at risk' groups, such as people with disabilities. Because of their characteristics, such groups may miss out on the stepping stone effect and, instead, may churn between non-traditional jobs and not working.

The transitory nature of non-traditional employment is particularly evident with respect to fixed-term and labour hire employment. Most people working in those groups spend relatively little time in them, rapidly moving to ongoing employment. It appears that, as predicted by labour market theory, some employers may use these forms of non-traditional work as a screening mechanism to identify productive workers. This leads some workers to recognise that non-traditional work can be used as a means of securing ongoing work.

Most casual employees, in time, also move out of non-traditional work, into ongoing employment. However, a minority of casual employees remain casual employees for long periods. Quantitative analysis indicates that, for some of these long-term casuals, this could be due to a poor command of English which prevents them from competing for ongoing positions. However, other evidence from HILDA shows that casual employment is the preferred state of some groups, among them women with dependent children and older working Australians. The preference of these groups for working fewer rather than longer hours, is reflected in overall job satisfaction ratings that, together with those of fixed-term employees, are the highest of all employed persons.

Overall, the transitions data reveal a clear dichotomy in the Australian labour market, between labour market states that are relatively stable, such as ongoing employment and not being in the labour force, and other states that are mainly transitory. Unemployment falls into the second category, with relatively few persons being unemployed for 12 months or more.

The transitory nature of non-traditional employment applies irrespective of which labour market state a person originates in. From the 12-month interval perspective of this paper's analysis, ongoing employees who cease to be permanently employed do not usually remain unemployed, but tend to secure non-traditional work instead. Most rapidly regain their ongoing status. Similarly, non-traditional employees who have come from unemployment or from out of the labour force, tend not to remain in non-traditional employment for long before securing ongoing employment.

In summary, the transitions data analysed in this paper suggest that non-traditional work fulfils two important functions in the labour market. First, it can provide a bridge between not working and ongoing employment, for those who prefer ongoing work to non-traditional employment. Second, non-traditional work provides a way for groups who derive relatively more benefit from non-work pursuits — such as education, child rearing or partial retirement — to achieve those objectives. That both of these functions can be of benefit to workers should not obscure the fact that they derive partly from employer preferences. As mentioned, transitions from non-traditional work to ongoing employment are often the result of the screening of workers by employers. Also, the ability of many workers to balance work and other activities through non-traditional work would be greatly reduced if their work preferences did not align with the need of employers for labour flexibility.

8.4 Household income

Non-traditional work is an important source of income for many Australian families. In 2003, more than one in four families with any wage income earned most of it from non-traditional work. However, ongoing work remains the main source of family wage income, with almost three-quarters of families earning most of their wage income from that type of work.

Families that rely on non-traditional work as their main source of wage income ('non-traditional wage families') are the main family type in the lowest income decile, but are a minority in all other deciles.

Below the median family income, the existence of a non-traditional wage usually means that it is the family's largest wage. Above the median income, this is not the case. In part, this occurs because of the overrepresentation of single person households in households that earn less than the median family income. Nonetheless, there are many non-traditional wage earners in the high family income deciles who are their family's main wage earner (including in the highest income decile).

Across all deciles, wage income makes up a lower proportion of total family income for non-traditional wage families than for traditional wage families. This is due, in the two lowest deciles, to non-traditional wage families receiving proportionately more government transfers. In higher deciles, non-traditional wage families receive relatively more non-government, non-wage income than traditional wage families do. This suggests that any wage differentials between traditional and non-traditional workers are only partly reflected in total income differences between their families.

8.5 Avenues for further research

It is possible to identify at least three areas for further research into non-traditional work: data; transitions; and household income.

Data

The study of non-traditional work in Australia is hampered by scarce and inconsistent data. Surveys of non-traditional forms of employment by the ABS are infrequent and lack comparability over time and across surveys. While the HILDA survey provides the frequency and consistency that ABS surveys lack, it does not focus on forms of employment. This means that, for complex forms of work such as self-employed contracting, it provides little information.

It would be useful for future ABS and HILDA surveys to remedy some of these shortcomings. The main ABS survey of forms of employment (the FOES survey) is now conducted more frequently than previously, but in a restricted form which often leaves out crucial detail necessary to the analysis of non-traditional work (for example, whether contract workers are free to sub-contract their work). Collecting this information annually is unlikely to add many questions to survey questionnaires, and would have large potential benefits for researchers and policy makers.

Previous waves of the HILDA survey have included special one-off modules that delved more deeply into areas such as wealth and retirement. In future, an additional module investigating non-traditional forms of employment could prove a valuable addition to the HILDA survey.

Both the FOES and HILDA surveys are household based surveys. As such, they cannot capture the link that exists between a firm's characteristics and its use of non-traditional labour. The most recent large-scale business survey containing this type of information is the 1995 Australian Workplace and Industrial Relations Survey (AWIRS), now more than ten years old. Obtaining up-to-date data on firms

and their use of non-traditional workers is crucial for the understanding and modelling of firms' demand for non-traditional workers. The ABS has recently launched a new, annual panel data survey of businesses: the Business Longitudinal Database (BLD). This initiative appears promising, but the amount of information collected regarding firms' use of non-traditional labour is as yet unknown.

Transitions

Notwithstanding its relative lack of detail in some areas, the HILDA survey is an invaluable source of information on the life course of individuals. Its availability means that transitions between labour market states can be charted over time, which allows for a more insightful analysis of the role of non-traditional work than is possible using cross-sectional data. However, the benefits of the HILDA survey in this area are still limited by the availability of only four years' worth of data (2001 to 2004). As time passes, and more waves of the HILDA survey become available, further refinements in the modelling of transitions will be possible. In particular, it will be possible to gauge the persistence of some labour market states more thoroughly, and to investigate whether churning is a long-term problem for some workers, especially in the context of the business cycle.

In the meanwhile, further valuable insights into transitions involving non-traditional work could be obtained by a detailed examination of intra-year transitions. Interrogation of the labour market calendar variables in the HILDA survey would allow detailed analysis of the employment history of: those formerly unemployed who become non-traditional workers; non-traditional workers who obtain ongoing employment; and ongoing workers who lose then regain ongoing employment.

Household income

It would be of interest to examine changes over time in the non-employment, non-traditional work and ongoing work status of family members, while simultaneously recording the income of each family. This would help to clarify any relationship between moves into and out of non-traditional work and changes in family income. Headey and Wooden (2005) have shown that most individuals in the lowest household income decile in 2001 were in a higher decile by 2003. Given the transitory nature of unemployment and non-traditional employment for most people, it may be hypothesized that a movement to a higher income decile coincides with a transition from non-employment to non-traditional work, in the first instance, and to ongoing employment in due course.

A Calculating the prevalence of non-traditional work

This appendix provides details on the data sources and methods used to estimate the prevalence and growth of non-traditional work, discussed in chapter 2.

A.1 Self-identified casuals

Prevalence and growth

The main sources of information on the prevalence and growth of casual employment are: the Labour Force Survey; the Forms of Employment Survey; and the Household, Income and Labour Dynamics in Australia survey.

Labour Force Survey

The ABS's Labour Force Survey (LFS) is a source of time-series information on the number of casual employees. Until 2000, the LFS equated the absence of paid holiday and/or sick leave with the existence of a casual employment contract. Since that time, the ABS has abandoned the use of the term 'casual' in the LFS, now only reporting the number of employees 'without paid leave entitlements'. From 1992 to 2004, the proportion of such employees in total employment grew from 17 per cent to 21 per cent (ABS 2004, 2005). Over the same period, the proportion of employees with one or both forms of leave entitlement declined from 62 per cent to 59.5 per cent.[54] Neither series shows any significant year-to-year variation. As a proportion of total employment, the number of employees with no leave entitlements grew most rapidly between 1992 and 1998, and has remained virtually constant since that time.

The estimates above remove a source of bias affecting earlier ABS estimates of casual employment growth based on the LFS. These estimates were biased because

[54] The remaining employment categories are: owner managers (of incorporated and unincorporated enterprises); and contributing family workers.

they erroneously included within casual employment some owner managers of incorporated enterprises.[55] For example, 23.2 per cent of employed persons were estimated to be casuals in the August 1998 LFS, compared with 20 per cent in the revised figures. However, even after the removal of owner managers, problems remain with using the absence of leave entitlements to measure casual employment. These problems include:

- Some ongoing employees have 'traded in' their holiday and sick leave entitlements for higher pay or other advantages. The 2003 HILDA survey reveals that 4 per cent of ongoing employees (excluding owner managers) receive neither holiday leave nor sick leave, which would see them classified as 'casual' or 'employee without leave entitlements' in the LFS.
- Some employees who self-identify as having a casual employment contract nonetheless have access to paid holiday and sick leave. In the 2003 HILDA survey, 5 per cent of self-identified casuals received one or both forms of leave.

For these reasons, an absence of paid leave entitlements is now an unsatisfactory means of identifying casual employees.

Forms of Employment Survey

In 1998, the ABS identified an employment category in its then-new Forms of Employment survey (FOES), which it termed 'self-identified casuals'. This group consisted mainly of persons who worked in someone else's business, who did not receive *both* paid holiday and sick leave, and who considered their job to be 'casual'. The group of self-identified casuals thus identified proved to be significantly smaller than that of employees without leave entitlements, previously identified as casuals in the LFS. The reasons for this were:

- the removal of owner managers (of incorporated and unincorporated enterprises) misclassified as casuals;
- the addition of persons misclassified as ongoing employees, employers and own account workers; and
- the removal of employees who did not regard themselves as casuals (Murtough and Waite 2000a, 2000b).

[55] Although they are technically employees, owner managers of incorporated enterprises often do not give themselves holiday or sick leave. However, the absence of such entitlements does not mean that theirs is a casual contract of employment.

While the removal of misclassified workers was welcomed by labour market analysts, a number of authors expressed reservations about the ABS's reliance on self-assessment to determine employment status (box A.1).

Box A.1 **Is self-identification warranted when it comes to employment status?**

The ability of the FOES category 'self-identified casuals' to capture the prevalence of casual employment in Australia has been criticised by some authors. The reasons given are:

- The basis on which employees without leave entitlements choose to self-identify as casuals is not known (Campbell and Burgess 2001; O'Donnell 2004).
- Self-identification is not used to distinguish any other labour force category in ABS surveys (O'Donnell 2004). For example, in contrast with the HILDA survey, FOES does not rely on self-identification to assess someone's status as a fixed-term employee.
- Given FOES's use of the 'Any Responsible Adult' survey methodology, self-identification can often mean, in reality, the interviewee's perception of someone else's form of employment (O'Donnell 2004).
- Self-identification means that changes over time can arise due to changes in people's perception of their employment status (Campbell and Burgess 2001).

As a result of these criticisms, the ABS discontinued the use of 'self-identified casuals' as a major employment category from 2004, stating that 'many users were concerned at the subjective nature of the question' (Evans 2004).

By contrast, the HILDA survey relies wholly on self-identification to ascertain the employment contract status of all employees. Wooden and Warren (2003) defend the use of this approach because:

- self-perceptions are what matters most 'if what we are mostly interested in is how casual employment status impacts on the behaviour of workers' (p. 8);
- subjective data are used extensively in survey research; and
- the accuracy of the ABS proxy based on leave entitlements is impaired by some respondents' lack of knowledge about their leave entitlements, and confusion about the *existence* and *use* of such entitlements.

In the 2001 FOES survey, the definition of self-identified casuals was altered slightly to include persons who worked in someone else's business, who received *either or neither* form of paid leave, and who considered their job to be casual. In the 2004 FOES survey, the ABS abandoned 'self-identified casuals' as a major employment category, reverting to identifying separately 'employees with paid leave entitlements' and 'employees without paid leave entitlements'. Fortunately, in a separate module of that survey, the ABS continued to ask respondents whether

they regarded themselves as casuals. Thus, it is still possible to obtain broadly comparable estimates of the number and prevalence of self-identified casuals in 1998, 2001 and 2004 (table A.1).

Table A.1 **Prevalence of casual employment,[a] FOES 1998, 2001 and 2004**

FOES		*1998*	*2001*	*2004*
Self-identified casuals[b]	'000	1 486.9	1 811.0	1 937.7
As a proportion of employees	%	22.1	24.8	25.1
As a proportion of employed persons	%	17.7	20.0	20.1

[a] Successive FOES surveys are not strictly comparable. [b] Definition varies across FOES surveys.

Source: ABS Forms of Employment surveys (Cat. no. 6359.0), Summary of Findings, various issues.

The FOES data reveal that the number of self-identified casuals grew rapidly between 1998 and 2001, but only slowly between 2001 and 2004. This growth is reflected in the prevalence of casuals, which stabilised from 2001 onward, both within the employee and the employed person populations.

Some of the difference in growth rates between 1998–2001 and 2001–04 may be attributed to seasonality. The number of casual employees typically increases towards the end of the year. The 1998 survey was conducted in August, whereas the 2001 and 2004 FOES surveys were conducted in November, which may explain the more rapid growth rate observed in the earlier period.

Household, Income and Labour Dynamics in Australia survey

The HILDA survey asks employees whether their contract of employment is: (i) ongoing or permanent; (ii) fixed-term; (iii) casual; or (iv) other. Like the FOES survey, therefore, the HILDA survey relies on self-assessment of employment status (box A.1). It is worthwhile noting that, in the year in which the FOES and HILDA surveys overlap (2001), they yield virtually identical estimates of the number and prevalence of self-identified casuals (table A.2). This may be regarded as indirect confirmation of the growth in the prevalence of casual employment from 1998 to 2001 observed in the FOES survey (table A.1). The similarity in estimates also suggests that the use of the Any Responsible Adult (ARA) method in the FOES survey did not affect the accuracy of that survey adversely, at least in terms of the identification of casuals.

Table A.2 **Prevalence of casual employment,[a] HILDA 2001–2004**

HILDA		*2001*	*2002*	*2003*	*2004*
Self-identified casuals	'000	1 878.9	2 030.0	1 946.6	1 979.6
As a proportion of employees[b]	%	25.2	26.4	24.6	24.4
As a proportion of employed persons	%	20.5	21.7	20.4	20.2

[a] Persons aged 15 years and over. [b] Excluding persons who answered 'other' to the question about their contract of employment.

Source: Productivity Commission estimates based on the HILDA survey, 2001–04, release 4.0.

The two surveys differ on whether the prevalence of casual employment plateaued (FOES) or declined (HILDA) after 2001. Again, the timing of each survey may explain part of those differences, with the HILDA surveys being conducted over a longer period (August to January or March each year) than the FOES survey.

True casuals and permanent casuals

The method used to distinguish true casuals from permanent casuals is adapted from that used by Murtough and Waite (2000a and 2000b) to interrogate FOES 1998 data. In FOES 2001, the following categories are defined and measured:

- Ongoing employees — Employees with paid leave entitlements *and* who do not have a fixed-term contract *and* who do not have a set completion date or event for their job.
- Permanent casuals — Self-identified casuals who:
  - do not have earnings that vary, excluding overtime; *and*
  - have an implicit contract for ongoing employment, defined as:
    - having a fixed-term contract but expecting it to be renewed; *or*
    - not having a fixed-term contract and not expecting to leave their job in the next twelve months for reasons initiated by their employer, including the job having a set completion date.
- True casuals — Any self-identified casuals who are not permanent casuals.

To enable a valid comparison of FOES 1998 and FOES 2001 data, it was necessary to adjust the definition of the following groups in the FOES 2001 survey: (i) 'employees with paid leave entitlements'; and (ii) 'employees without paid leave entitlements who did not identify as casual'. This was achieved by reclassifying employees who did not receive *both* paid holiday leave and paid sick leave from group (i) into group (ii).

A.2 Fixed-term employees

Prevalence and growth

Recent data sources about employees with a fixed-term contract of employment include the HILDA and FOES surveys.

Household, Income and Labour Dynamics in Australia survey

In the HILDA survey, employees (excluding owner managers) are asked to self-identify into three mutually exclusive forms of employment: (i) ongoing or permanent; (ii) casual; or (iii) fixed-term. Thus, unlike FOES, the HILDA survey does not allow for the possibility that a fixed-term employee also identifies as a casual worker.

In the HILDA survey, both the number and prevalence of fixed-term employees increased between 2001 and 2002, and declined from 2002 to 2004 (table A.3).

Table A.3 **Fixed-term employees,[a] HILDA 2001–2004**

HILDA		*2001*	*2002*	*2003*	*2004*
Fixed-term employees	'000	651.0	722.6	675.1	643.3
As a proportion of employees[b]	%	8.7	9.4	8.5	7.9
As a proportion of employed persons	%	7.1	7.7	7.1	6.6

[a] Persons aged 15 years and over. [b] Excluding persons who answered 'other' to the question about their contract of employment.

Source: Productivity Commission estimates based on the HILDA survey, 2001–04, release 4.0.

Forms of Employment survey

In the FOES survey, employees working on a fixed-term contract are defined as 'employees with a contract of employment which specifies that the employment will be terminated on a particular date or on completion of a specific task' (ABS, Cat. no. 6359.0).

Specifically, the FOES survey deems employed persons to have a fixed-term contract if:

- their employment has a finishing date or event;[56] and

[56] The FOES 1998 questionnaire did not ask about a finishing event (that is, the completion of a task), which is likely to have resulted in the number of fixed-term employees being underestimated by around 9100 persons (Waite and Will 2002).

- the finishing date or the likely date of completion of the event is less than five years away; and
- the reason for having a finishing date or event is that the employed person is on a fixed-term contract.

As mentioned, fixed-term employees identified in the FOES survey fall into three employee categories: employees with leave entitlements; self-identified casuals; and employees without leave entitlements who do not identify as casuals. The exact definition of these categories varies between FOES surveys.

The 1998, 2001 and 2004 waves of the FOES survey show that the number of fixed-term employees increased from 1998 to 2001, then declined from 2001 to 2004 (table A.4). In relative terms, fixed-term employees declined as a proportion of both all employees and all employed persons between 1998 and 2004. If the likely underestimation of fixed-term employee numbers in 1998 is taken into account, the decline recorded in subsequent years is even more marked.

Table A.4 **Fixed-term employees,[a] FOES 1998, 2001 and 2004**

FOES		*1998*	*2001*	*2004*
Fixed-term employees[b]	'000	266.1	288.1	283.6
As a proportion of employees	%	3.9	3.9	3.7
As a proportion of employed persons	%	3.2	3.2	3.0

[a] To enable comparison across surveys, data are limited to persons aged 15–69 years. [b] Definition varies across FOES surveys.

Source: ABS Forms of Employment surveys (Cat. no. 6359.0) Summary of Findings, various issues.

Discussion

The number of self-identified fixed-term employees in the HILDA survey is around two-and-a-half times that in FOES (tables A.3 and A.4). One similarity between the two surveys is the suggestion of a decline in the total number of fixed-term employees from 2001 to 2004. In relative terms, however, HILDA points to a relatively stable proportion from 2001 to 2004, while FOES records a falling share of fixed-term employees over the same period.

There are a number of explanations for the disparity between the FOES and HILDA estimates of fixed-term employees. First, the data in the FOES survey were collected using the ARA method, whereas HILDA data are obtained from face-to-face interviews with each individual in the household surveyed. Indirect evidence suggests that the use of ARA results in an underestimation of the number of non-traditional workers. Based on a sequence of questions identical to FOES, but using a

personal interview method rather than ARA, the Survey of Employment Arrangements and Superannuation (SEAS) identified 286 000 fixed-term employees with some leave entitlements in 2000, compared with the 190 800 identified by the FOES survey in 2001.

Second, it is likely that some fixed-term employees who expected their contract to be renewed did not report to the ABS that their contract had a finishing date or event. Thus, the FOES survey is likely to have underestimated the prevalence of fixed-term employees. However, 75 per cent of persons who indicated that they had a fixed-term contract in 2004, also indicated that they expected their contract to be renewed (FOES 2004). This suggests that the two responses are not regarded as mutually exclusive by most fixed-term employees.

Third, and conversely, it is possible to question the accuracy of the HILDA variable measuring fixed-term employment. As far as can be ascertained, the HILDA person questionnaire and showcards do not define fixed-term contracts, either by reference to a finishing date, task or event, or in terms of any expectations of renewal. This means that respondents' understanding of what constitutes fixed-term employment may differ, leading to inconsistencies in self-identification. It is not clear whether such a problem — already noted in relation to casuals (box A.1) — would result in an under- or overestimation of the number of fixed-term employees by the HILDA survey.

On balance, it is likely that the HILDA approach to identifying fixed-term employees allows for better estimates than those obtained by FOES. The FOES survey embodies known sources of underestimation of the number of fixed-term employees (and of labour hire employees, see below). By contrast, possible biases in the HILDA survey may lead to an under- or overestimation.

A.3 Self-employed contractors

Prevalence and growth

In contrast with casual, fixed-term, and labour hire employees, the prevalence of self-employed contractors in the workforce cannot be estimated on the basis of HILDA data.[57] This leaves the FOES survey as the only recent large-scale survey from which self-employed contractors can be estimated. Other, more fragmentary,

[57] However, as explained below, HILDA data have been used in conjunction with FOES to measure the number of self-employed contractors in the employee population in 2001.

sources of information on self-employed contractors are also examined in this section.

Forms of Employment survey

Prevalence of self-employed contractors in FOES 2001

Self-employed contractors may be found within all five categories of workers identified in the FOES 2001 survey, namely:

- employees with paid leave entitlements;
- self-identified casuals;
- employees without paid leave entitlements who did not identify as casuals;
- owner managers of incorporated enterprises; and
- owner managers of unincorporated enterprises.

By applying a series of tests to each of these categories, Waite and Will (2001) estimated the number of self-employed contractors in 1998 at 843 900. Replicating these authors' approach using unpublished FOES 2001 data, it is possible to produce a broad estimate of the number of self-employed contractors in 2001 (table A.6). Unfortunately, this estimate is not strictly comparable with that for 1998, due to differences in scope and questionnaires between the 1998 and 2001 surveys.

The self-employed contractor tests applied to each of the FOES worker categories in 2001 are as follows:

- Employees with leave entitlements and self-identified casuals — those who did not pay PAYE tax, but earned more than the tax-free threshold (more than $100 per week, pre-tax) were deemed to be self-employed contractors. Because the PAYE variable was no longer available in FOES 2001, this population was estimated using HILDA survey data for that year.
- Employees without paid leave entitlements who did not identify as casuals — those who worked on a contract basis, but not did not have a fixed-term contract were deemed to be self-employed contractors.
- Owner managers of incorporated enterprises — persons who reported working on a contract basis, but did not have any employees were classified as self-employed contractors.
- Owner managers of unincorporated enterprises — persons in this group were deemed to be self-employed contractors if they reported that:
  - they did not undertake contract work; *and*

- they did not have tax deducted directly from their earnings and they did not draw a wage or salary from their business; *and*
- they had no employees.

Prevalence of self-employed contractors in FOES 2004

In contrast with the FOES 2001 survey, unpublished data from the FOES 2004 survey allow the number of self-employed contractors to be measured only within some groups of workers. Some of the survey questions that were available in 2001 for the identification of self-employed contractors were not asked in the 2004 questionnaire. As a result, the self-employed contractor tests described above cannot be implemented.

Groups of workers among which self-employed contractors cannot be identified in 2004, due to a lack of data items, are:

- employees (excluding owner managers of incorporated enterprises) with paid leave entitlements;
- employees (excluding owner managers of incorporated enterprises) without paid leave entitlements, who consider themselves to be casuals; and
- some owner managers of unincorporated enterprises.

Groups among which self-employed contractors can be identified on the basis of 2004 data are:

- employees (excluding owner managers of incorporated enterprises) without paid leave entitlements, who do not consider themselves to be casuals;
- owner managers of incorporated enterprises; and
- some owner managers of unincorporated enterprises.

By comparing the FOES 2001 and 2004 estimates of self-employed contractors in those groups where they can be identified, it is possible to infer what the growth in the overall self-employed contractor population between 2001 and 2004 may have been (table A.5). Based on the 2001–04 change in the number of these identifiable groups of self-employed contractors, it is estimated that the total number of self-employed contractors in 2004 was 787 600, a 6.5 per cent increase on 2001.

Table A.5 **Calculation of the prevalence of self-employed contractors, 2004**

FOES population	*2001*	*2004*	*Change*
	’000	’000	%
Employees (excluding OMIEs) without paid leave entitlements, who do not consider themselves to be casuals	42.1	38.2	-9.3
Owner managers of incorporated enterprises and of some unincorporated enterprises	324.9	352.8	8.6
Sub-total	**367.0**	**391.0**	**6.5**
All self-employed contractors[a]	**739.5**	**787.6**	**6.5**

[a] The 2004 figure for the overall number of self-employed contractors is obtained by applying a 1.065 growth factor to the 2001 number. **OMIEs** Owner managers of incorporated enterprises.

Source: Productivity Commission estimates based on unpublished data from ABS (Forms of Employment Survey, Cat. no. 6359.0).

By collating the information on self-employed contractors derived from the three waves of the FOES survey available, changes in the prevalence of this form of employment over time can be assessed (table A.6).

Table A.6 **Self-employed contractors,[a] 1998, 2001 and 2004**

FOES		*1998*	*2001*	*2004*
Self-employed contractors[b]	’000	843.9	739.5	787.6
As a proportion of employed persons	%	10.1	8.2	8.2

[a] Successive FOES surveys are not strictly comparable. [b] See chapter 2 for definition.

Source: Productivity Commission estimates based on unpublished data from ABS (Forms of Employment Survey, Cat. no. 6359.0) and the HILDA survey, 2001, release 4.0.

Other sources of data on self-employed contractors

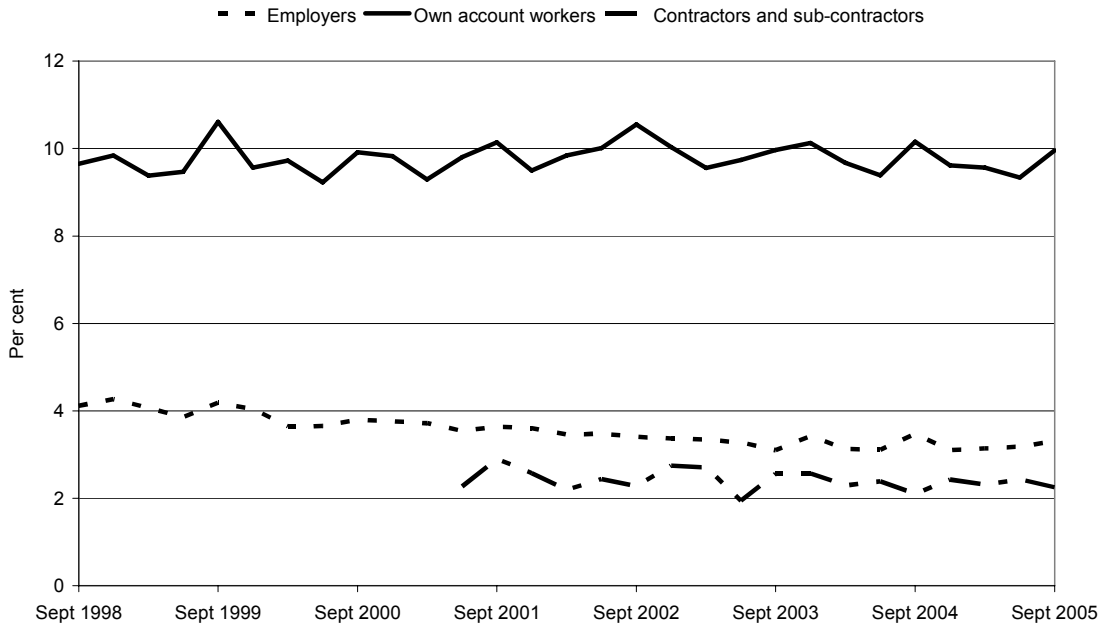
Estimates in table A.6 may be compared with other sources of information on self-employed contractors. Although fragmentary and disparate, these sources may help shed additional light on the prevalence and growth of this form of non-traditional work.

Independent Contractors of Australia (ICA), an organisation advocating the interests of independent contractors, recently estimated that 1.9 million persons were working as independent contractors in 2004 (ICA 2005a). It based this estimate on the total number of owner managers of incorporated and unincorporated enterprises in FOES 2004. However, as the analysis in the previous section has illustrated, not all members of those two categories are self-employed contractors. For example, an owner manager who employs other people cannot be categorised as a self-employed contractor.

Based on research by the Institute of Public Affairs (Moran 2002), ICA also claims that 28 per cent of the private sector workforce (equivalent to 2.2 million persons) were independent contractors in 2002. However, closer scrutiny of the original data source reveals that this figure refers to all non-employee types, including employers.

Some authors (Roskam 2005; O'Donnell 2005; ACTU 2005) regard the number of own account workers[58] in the LFS as a partial proxy for the number of self-employed contractors. Figure A.1 shows that, from 1998 to 2005, the proportion of own account workers in the total employed population has remained remarkably constant, at around 10 per cent. However, not all such workers are engaged in contracting; some, such as shopkeepers, do not contract their services (O'Donnell 2005).

Figure A.1 **Categories of workers in the LFS[a]**



a Percentage of all employed persons. Together with employees and contributing family workers (not shown in this figure), own account workers and employers make up all the categories identified in the LFS. The 'contractors and sub-contractors' category is not identified separately in the LFS. It was constructed from unpublished LFS data.

Data source: Productivity Commission estimates based on published and unpublished data from ABS (Labour Force Survey, Cat. no. 6202.0).

58 An own account worker is defined in the LFS as 'a person who operates his or her own unincorporated economic enterprise or engages independently in a profession or trade, and hires no employees'.

Moreover, the other non-employee LFS category of 'employers' also contains some self-employed contractors. For example, some persons classified as employers hire only family members and perform the majority of the work themselves (Waite and Will 2001).

Conversely, a number of persons classified as employees in the LFS are, in reality, self-employed contractors. They include:

- owner managers of incorporated enterprises who pay themselves a salary and work on a contract basis; and
- self-employed contractors who work exclusively for one client and are, therefore, more likely to identify as employees when responding to a survey. This group is known as 'dependent' contractors and is examined in the next section.

Therefore, self-employed contractors can exist in all major categories of workers identified in the LFS. Because some categories have grown in importance (employees), while others have remained constant (own account workers) or declined (employers), it is not possible to rely on changes in a single major category to understand how the prevalence of self-employed contractors in total employment may have changed since 1998.

A previously unexploited question in the LFS allows another measure of self-employed contractors to be constructed from that survey. Employees who answered 'other/uncertain' when asked if they were paid a wage or salary or some other form of payment, and persons who responded 'other/uncertain' when asked if they worked for an employer or in their own business, were then asked to nominate the most appropriate working/payment arrangement that applied to them (Questions 28–30 and 47–49 in the LFS questionnaire). The number of persons selecting 'contractor/subcontractor' as the most appropriate arrangement, and who had no employees, is plotted in figure A.1). If this time series is representative of the total number of self-employed contractors, it suggests that the prevalence of this form of employment remained largely constant between 2001 and 2004.

As a final check, prevalence estimates from some States provide a benchmark against which Australia-wide figures can be assessed. The Queensland Department of Industrial Relations reports, based on its analysis of LFS data, that self-employed contractors made up 6.7 per cent of that State's total employment in June 2004 (Barresi 2005a). The Victorian government estimates that 4 per cent of the State's total workforce are employed as self-employed contractors (IRV 2005).

As is apparent from the foregoing discussion, estimates of the prevalence and growth of self-employed contracting vary widely. Based on the most robust

estimates available (table A.6), it appears that self-employed contractors made up around 8 per cent of all workers in 2004 and that, despite some growth in numbers between 2001 and 2004, the prevalence of this form of employment in 2004 remained below that recorded in 1998.

Dependent contractors

Waite and Will (2001) used two series of tests to derive a lower bound and an upper bound estimate of the number of dependent contractors in 1998. The upper bound estimate was obtained by applying the test of dependency built into the FOES survey by the ABS, whereas the lower bound estimate embodied a more stringent test of dependency. Waite and Will argued that the lower bound estimate is the more realistic one, given that it accords with ATO estimates of employee-like contractors, and that it is based on tests that would be applied by Australian courts and tribunals (2001).

The two tests are summarised in table A.7.

Table A.7 **Tests designed to identify dependent contractors in FOES[a]**

FOES category	*Lower bound estimate*	*Upper bound estimate*
Employees with leave entitlements and self-identified casuals	All self-employed contractors in this category are dependent contractors	
Employees without leave entitlements who did not identify as casual and OMIEs	Self-employed contractors: • (who do not have control over their own working procedures; *and* • the terms of whose contract prevent them from subcontracting their work); *or* • (who do not have control over their own working procedures; *and* • whose contract prevents them from working for multiple clients) are dependent contractors.	Self-employed contractors: • (who do not have control over their own working procedures); *or* • (the terms of whose contract prevent them from subcontracting their work); *or* • (whose contract prevents them from working for multiple clients) are dependent contractors.
Owner managers of unincorporated enterprises	Self-employed contractors who report that their client has control over their working procedures are dependent contractors.	

a See Waite and Will (2001) for the rationale underlying these tests. **OMIEs** Owner managers of incorporated enterprises.

Source: Based on Waite and Will (2001).

A.4 Labour hire workers

The prevalence and growth of labour hire employment may be estimated on the basis of several surveys (see Laplagne and Glover 2005 for a review). The most recent sources are the FOES, HILDA and Employment Services (ESS) surveys, the latter an industry survey conducted by the ABS. Unfortunately, none of these surveys allows the identification of labour hire contractors. Estimates of the number of labour hire employees based on each of the three surveys are compared in table A.8.

Estimates of the number and prevalence of labour hire employees are higher in the HILDA and ESS surveys than in the FOES survey. Laplagne and Glover (2005) put forward a range of reasons why the FOES survey estimates are likely to have underestimated labour hire employment. They include those surveys' use of the ARA method and, in the case of FOES 1998, a possible confusion between 'employment' and 'labour hire' agencies.

Table A.8 **Prevalence of labour hire employment, 1998–2004**

Survey		*1998*	*1999*	*2000*	*2001*	*2002*	*2003*	*2004*
FOES[a]								
Labour hire employees[b]	'000	84.3			161.8			
As a proportion of employees[b]	%	1.3			2.2			
As a proportion of employed persons	%	1.0			1.8			
HILDA[c]								
Labour hire employees[d]	'000				276.4	285.5	284.9	301.0
As a proportion of employees	%				3.7	3.7	3.6	3.7
As a proportion of employed persons	%				3.0	3.1	3.0	3.1
ESS								
Labour hire employees[e]	'000		278.9			290.1		
As a proportion of employees	%							
As a proportion of employed persons	%		3.2			3.1		

[a] Number of labour hire employees not available from FOES 2004. Successive FOES surveys are not strictly comparable. [b] Definition varies across FOES surveys. [c] Persons aged 15 years and over. [d] Excluding persons who answered 'other' to the question about their contract of employment. [e] Indirect employees of for-profit agencies.

Source: ABS Forms of Employment (Cat. no. 6359.0), Summary of Findings, various issues; Productivity Commission estimates based on the HILDA survey 2001–04, release 4.0; ABS Employment Services Survey (Cat. no. 8558.0), Summary of Findings.

Laplagne and Glover (2005) also argue that several factors caused the ESS 1999 survey to overestimate the prevalence of labour hire employment. They conclude that, on balance, the HILDA survey allows the most reliable and consistent estimate of the prevalence of labour hire employment. However, it should be noted that HILDA asked employees if they were 'employed through a labour hire firm or temporary employment agency'. This question may have resulted in an overestimate

if people who originally found their job through an agency, but are now directly employed by the client firm, answered in the affirmative.[59]

This issue notwithstanding, data from the HILDA survey indicate that labour hire employment has, since 2001, increased in line with total employment, so that it has remained stable as a proportion of the workforce (table table A.8). This is in contrast to the rapid growth this form of employment experienced during the 1990s (Laplagne and Glover 2005).

[59] At the time of the FOES 2001 survey, 721 200 persons reported having found a job through registration with an employment agency/labour hire firm. However, only 161 800 indicated that they were paid by an employment agency/labour hire firm.

B Detailed data on non-traditional work

Table B.1 **Number of non-traditional and ongoing employees by work arrangement and age group, 2003**

Age	*Casual*[a]		*Ongoing*[a]		*Fixed-term*[a]		*Labour hire*	
	’000	%	’000	%	’000	%	’000	%
15–19	479.5	63.3	221.3	29.2	30.6	4.0	25.8	3.4
20–24	339.7	32.1	555.8	52.5	112.8	10.7	49.6	4.7
25–29	144.4	14.8	682.8	70.2	93.4	9.6	52.3	5.4
30–34	133.4	13.3	735.2	73.5	97.0	9.7	34.7	3.5
35–39	111.0	12.8	656.4	75.6	74.4	8.6	26.5	3.1
40–44	134.7	13.9	723.2	74.8	77.4	8.0	31.9	3.3
45–49	113.5	12.5	684.1	75.6	89.0	9.8	18.8	2.1
50–54	98.0	13.8	534.1	74.9	67.7	9.5	12.9	1.8
55–59	81.1	17.7	348.0	76.1	17.4	3.8	10.8	2.4
60–64	59.5	34.0	102.5	58.6	8.6	4.9	4.2	2.4
Total[b]	**1 694.7**	**21.5**	**5 243.4**	**66.6**	**668.3**	**8.5**	**267.5**	**3.4**

[a] Excluding labour hire employees. [b] The total is limited to 15-64 year olds, and is only directly comparable with totals in tables B.2 and B.3. The total in other tables may include workers 65 and over.

Source: Productivity Commission estimates derived from HILDA 2003, release 3.0.

Table B.2 **Number of self-employed contractors by age group, 2001**

Age	*Employees*		*Others*		*Self-employed contractors*	
	'000	%	'000	%	'000	%
15–19	606.3	92.3	33.3	5.1	17.1	2.6
20–24	904.3	90.4	59.0	5.9	36.7	3.7
25–29	910.2	84.7	100.3	9.3	64.3	6.0
30–34	857.9	78.8	148.8	13.7	81.4	7.5
35–39	818.4	73.9	188.4	17.0	100.1	9.0
40–44	847.1	73.4	203.8	17.7	102.6	8.9
45–49	763.9	71.1	218.0	20.3	92.1	8.6
50–54	638.6	68.6	201.5	21.7	91.0	9.8
55–59	391.9	65.9	135.9	22.8	67.3	11.3
60–64	150.0	54.5	75.8	27.5	49.7	18.0
Total[a]	**6 888.4**	**76.9**	**1 364.9**	**15.2**	**702.2**	**7.8**

a The total is limited to 15-64 year olds, and is only directly comparable with totals in tables B.1 and B.3. The total in other tables may include workers 65 and over. **Employees** with both paid sick and holiday leave + employees who did not receive both paid sick and holiday leave, and who considered themselves to be casuals. This group excludes self-employed contractors. **Others**, all other employed persons, excluding self-employed contractors. This group comprises some employees who did not receive both paid sick and holiday leave, and who did not consider themselves to be casuals. It also includes some owner managers of incorporated and unincorporated enterprises. **Self-employed contractors**, see chapter 2 for a definition. This group includes both dependent and independent contractors. FOES data for dependent contractors have been adjusted using HILDA data.

Source: Productivity Commission estimates based on unpublished data from ABS (Forms of Employment Survey, Cat. no. 6359.0) and HILDA 2001, release 3.0.

Table B.3 **Number of male and female non-traditional and ongoing employees by work arrangement and age group, 2003**

Age	*Casual*[a]		*Ongoing*[a]		*Fixed-term*[a]		*Labour hire*		*Total*
Males	’000	%	’000	%	’000	%	’000	%	%
15–19	206.9	55.3	135.1	36.1	17.7	4.7	14.3	3.8	100.0
20–24	159.9	29.1	301.5	54.8	60.0	10.9	28.8	5.2	100.0
25–29	68.8	12.9	371.7	69.7	54.9	10.3	37.5	7.0	100.0
30–34	51.1	8.5	468.1	77.9	55.1	9.2	26.7	4.4	100.0
35–39	41.0	8.5	391.2	80.9	37.2	7.7	14.5	3.0	100.0
40–44	47.4	9.1	420.0	80.8	36.5	7.0	16.0	3.1	100.0
45–49	24.2	5.4	384.8	86.0	29.7	6.6	8.8	2.0	100.0
50–54	36.6	9.9	288.0	78.1	36.2	9.8	8.1	2.2	100.0
55–59	33.5	13.9	190.5	78.9	14.2	5.9	3.3	1.4	100.0
60–64	37.8	34.5	65.7	59.9	3.4	3.1	2.7	2.4	100.0
Sub-total	**707.2**	**16.7**	**3 016.6**	**71.3**	**344.9**	**8.2**	**160.9**	**3.8**	**100.0**
Females									
15–19	272.6	71.1	86.3	22.5	12.8	3.4	11.5	3.0	100.0
20–24	179.8	35.4	254.3	50.1	52.8	10.4	20.8	4.1	100.0
25–29	75.6	17.2	311.1	70.7	38.5	8.7	14.8	3.4	100.0
30–34	82.2	20.6	267.2	66.9	41.9	10.5	8.0	2.0	100.0
35–39	70.0	18.2	265.2	69.0	37.3	9.7	12.0	3.1	100.0
40–44	87.3	19.5	303.2	67.8	40.9	9.1	15.9	3.5	100.0
45–49	89.2	19.5	299.3	65.4	59.4	13.0	10.0	2.2	100.0
50–54	61.4	17.9	246.0	71.6	31.5	9.2	4.8	1.4	100.0
55–59	47.7	22.1	157.5	72.9	3.3	1.5	7.5	3.5	100.0
60–64	21.6	33.2	36.8	56.5	5.1	7.9	1.5	2.4	100.0
Sub-total	**987.5**	**27.1**	**2 226.9**	**61.1**	**323.4**	**8.9**	**106.7**	**2.9**	**100.0**
Total[b]	**1 694.7**	**21.5**	**5 243.4**	**66.6**	**668.3**	**8.5**	**267.5**	**3.4**	**100.0**

[a] Excluding labour hire employees. [b] The total is limited to 15-64 year olds, and is only directly comparable with totals in tables B.1 and B.2. The total in other tables may include workers 65 and over.

Source: Productivity Commission estimates derived from HILDA 2003, release 3.0.

Table B.4 **Prevalence of self-employed contractors by gender,[a] 2001**

Gender	*Employees*		*Others*		*Self-employed contractors*	
	’000	%	’000	%	’000	%
Males	3 628.1	52.1	910.6	65.1	496.3	71.4
Females	3 337.0	47.9	488.0	34.9	198.5	28.6
Total	**6 965.1**	**100.0**	**1 398.6**	**100.0**	**694.8**	**100.0**

[a] See table B.2 for definitions of categories.

Source: Productivity Commission estimates based on unpublished data from ABS (Forms of Employment Survey, Cat. no. 6359.0).

Table B.5 **Work arrangements by location and jurisdiction, 2003**

	Casual[a]	*Ongoing*[a]	*Fixed-term*[a]	*Labour hire*	*Total*
	%	%	%	%	%
Location					
City	19.8	68.0	8.5	3.8	100.0
Regional	26.6	62.3	8.5	2.5	100.0
Remote	25.8	65.6	5.9	2.7	100.0
Jurisdiction					
NSW	21.1	68.3	7.1	3.5	100.0
VIC	20.8	64.7	11.0	3.5	100.0
QLD	22.9	67.3	6.8	3.0	100.0
WA	20.3	68.8	7.6	3.3	100.0
SA	25.9	59.0	10.3	4.9	100.0
TAS	28.5	62.4	8.2	0.9	100.0
NT	32.0	51.5	16.5	-	100.0
ACT	17.3	70.3	9.2	3.2	100.0

[a] Excluding labour hire. – too small to be estimated.

Source: Productivity Commission estimates derived from HILDA 2003, release 3.0.

Table B.6 **Prevalence of self-employed contractors by location and jurisdiction,[a] 2001**

	Employees	*Others*	*Self-employed contractors*	*Total*
	%	%	%	%
Location				
Capital city	78.7	14.5	6.8	100.0
Balance[b]	73.7	17.1	9.2	100.0
Jurisdiction				
NSW	77.0	16.0	7.1	100.0
Victoria	77.9	14.7	7.4	100.0
Queensland	76.1	15.4	8.6	100.0
SA	76.1	15.7	8.2	100.0
WA	74.2	16.7	9.0	100.0
Tasmania	78.1	15.6	6.4	100.0
NT	82.1	12.8	5.1	100.0
ACT	83.3	10.3	6.4	100.0

[a] See table B.2 for definitions of categories. [b] Balance of State or Territory. Totals may be affected by rounding.

Source: Productivity Commission estimates based on unpublished data from ABS (Forms of Employment Survey, Cat. no. 6359.0).

Table B.7 **Work arrangements by occupation and industry, 2003**

	Casual[a]	*On-going*[a]	*Fixed-term*[a]	*Labour hire*	*Total*
	%	%	%	%	%
Occupation					
Managers and administrators	3.3	82.0	12.9	1.8	100.0
Professionals	9.9	74.0	14.1	2.0	100.0
Associate professionals	10.3	77.9	8.3	3.5	100.0
Tradespersons and related employees	13.2	73.8	8.8	4.2	100.0
Advanced clerical and service employees	17.3	71.0	10.3	1.3	100.0
Intermediate clerical, sales & service employees	24.5	65.6	7.2	2.7	100.0
Intermediate production and transport employees	22.6	65.3	5.3	6.8	100.0
Elementary clerical, sales and service employees	53.5	40.4	3.3	2.7	100.0
Labourers and related employees	45.0	45.8	2.4	6.8	100.0
Industry					
Agriculture, forestry and fishery	42.0	50.9	5.1	2.1	100.0
Mining	9.3	72.5	8.3	9.9	100.0
Manufacturing	12.8	76.7	4.0	6.5	100.0
Electricity, gas and water	4.6	83.8	5.1	6.5	100.0
Construction	20.6	69.7	7.4	2.3	100.0
Wholesale trade	12.2	77.3	6.3	4.2	100.0
Retail trade	44.4	49.0	5.5	1.2	100.0
Accommodation, cafes and restaurants	53.3	39.9	5.7	1.1	100.0
Transport and storage	15.0	74.6	6.0	4.4	100.0
Communication services	3.8	77.0	5.8	13.4	100.0
Finance and insurance	5.1	84.2	7.6	3.1	100.0
Property and business services	17.9	68.1	9.1	4.8	100.0
Government administration and defence	4.3	79.1	12.5	4.2	100.0
Education	14.3	67.0	17.2	1.6	100.0
Health and community services	18.7	68.9	9.9	2.4	100.0
Cultural and recreational services	33.1	47.7	16.6	2.6	100.0
Personal and other services	17.8	74.9	7.0	0.3	100.0

[a] Excluding labour hire.

Source: Productivity Commission estimates derived from HILDA 2003, release 3.0.

Table B.8 **Prevalence of self-employed contractors by occupation and industry,[a] 2001**

	Employees	*Others*	*Self-employed contractors*	*Total*
	%	%	%	%
Occupation				
Managers and administrators	52.6	31.6	15.8	100.0
Professionals	79.6	13.1	7.3	100.0
Associate professionals	66.4	27.8	5.8	100.0
Tradespersons and related employees	66.0	19.9	14.2	100.0
Advanced clerical and service employees	69.4	23.8	6.8	100.0
Intermediate clerical, sales & service employees	88.8	8.2	3.0	100.0
Intermediate production and transport employees	78.7	10.6	10.7	100.0
Elementary clerical, sales and service employees	91.3	5.9	2.9	100.0
Labourers and related employees	84.5	9.2	6.3	100.0
Industry				
Agriculture, forestry and fishery	38.1	37.6	24.3	100.0
Mining	87.4	8.3	4.4	100.0
Manufacturing	85.8	9.8	4.4	100.0
Electricity, gas and water	96.1	ne	ne	100.0
Construction	45.9	30.0	24.1	100.0
Wholesale trade	78.3	17.1	4.5	100.0
Retail trade	79.2	17.1	3.8	100.0
Accommodation, cafes and restaurants	82.4	15.2	2.4	100.0
Transport and storage	71.9	17.0	11.2	100.0
Communication services	81.0	7.5	11.5	100.0
Finance and insurance	88.0	8.9	3.1	100.0
Property and business services	67.9	21.1	11.1	100.0
Government administration and defence	96.1	2.6	1.3	100.0
Education	92.9	4.4	2.7	100.0
Health and community services	86.3	10.3	3.4	100.0
Cultural and recreational services	75.0	12.7	12.3	100.0
Personal and other services	72.8	18.7	8.4	100.0

a See table B.2 for definitions of categories. **ne** not estimated (insufficient data).

Source: Productivity Commission estimates based on unpublished data from ABS (Forms of Employment Survey, Cat. no. 6359.0).

Table B.9 **Hours worked per week in all jobs by form of employment, 2003**

Proportion of employees working	*Casual*[a]	*Ongoing*[a]	*Fixed-term*[a]	*Labour hire*	*Self-employed contractors*[b]
Hours	%	%	%	%	%
1–34	75.2	16.5	21.8	25.2	37.7
35–40	10.9	41.0	35.7	47.6	19.9
More than 40	13.9	42.4	42.5	27.2	42.5
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
1–9	20.0	0.9	1.3	5.0	na
10–19	27.1	4.0	5.6	7.6	na
20–29	19.7	7.1	9.9	5.6	na
30–39	14.5	26.0	25.2	35.2	na
40–49	8.2	39.7	32.0	29.5	na
50–59	3.5	13.6	13.7	10.4	na
60 or more	7.1	8.7	12.2	6.6	na
Total	**100.0**	**100.0**	**100.0**	**100.0**	**na**
Average hours worked per week	**20.3**	**40.3**	**39.5**	**34.4**	**37.1**

[a] Excluding labour hire. [b] Data for self-employed contractors pertain to 2001 and to main job only. **na** not available.

Source: Productivity Commission estimates derived from HILDA 2003, release 3.0, except self-employed contractors (based on unpublished data from ABS [Forms of Employment Survey, Cat. no. 6359.0]).

Table B.10 **Reasons for working part-time, 2003**

Reason	*Male casual*	*Female casual*	*Total NTE*[a]	*Ongoing male*	*Ongoing female*	*All employees*
	%	%	%	%	%	%
Illness	3.1	1.7	2.3	5.0	2.9	2.7
Care for children	1.5	21.5	16.2	6.8	37.6	21.7
Care for relatives	0.7	0.3	0.4	0.0	0.2	0.3
Meet other family or personal responsibilities	0.4	1.8	1.5	2.4	3.4	2.1
Undertake education	51.0	39.0	40.8	35.9	10.2	31.7
Could not find full-time work	22.8	12.4	16.1	15.3	6.2	13.1
Prefer part-time work	10.7	14.9	14.1	20.1	29.5	19.0
Undertake voluntary work	0.3	0.3	0.3	0.0	0.2	0.2
Pay premium attractive	1.8	0.9	1.1	1.1	0.8	1.0
Welfare or pension rules	1.3	0.8	0.8	0.5	0.4	0.7
Establish own business	0.0	0.5	0.3	0.5	0.1	0.3
Prefer job, part-time hours part of job	6.4	5.8	6.0	12.2	8.7	7.2

NTE non-traditional employee, including casual employees. Fixed-term and labour hire not separately shown as small sample size does not allow accurate estimation.

Source: Productivity Commission estimates derived from HILDA 2003, release 3.0.

Table B.11 **Highest level of education completed,[a] 2003**

	Casual	*Ongoing*	*Fixed-term*	*Labour hire*	*All employees*
	%	%	%	%	%
Year 11 or lower	40.4	22.6	14.9	27.6	26.2
Year 12	21.5	14.0	15.3	20.7	16.1
Certificate or diploma	32.3	46.4	41.2	41.5	42.6
Degree	4.1	12.2	19.0	6.4	10.7
Post graduate	1.8	4.7	9.6	3.7	4.4
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

a Employees who have left secondary school and who are not currently studying full-time in a post-secondary course. Casual, ongoing and fixed-term categories exclude labour hire employees.

Source: Productivity Commission estimates derived from HILDA 2003, release 3.0.

Table B.12 **Other characteristics of non-traditional and traditional employees,[a] 2003**

Characteristic		*Casual*	*Ongoing*	*Fixed-term*	*Labour hire*
Proportion of all employees	%	21.8	66.3	8.5	3.4
Overall job satisfaction[b]	no.	8.7	8.8	9.1	8.1
Looked for another job in past 4 wks	%	22.7	12.8	20.5	25.1
Satisfaction with total pay[b]	no.	7.7	7.7	7.7	7.0
Earning less than $300 per week	%	61.3	14.1	16.4	21.3
More than one job	%	13.5	6.8	10.7	9.3
Receiving sick leave	%	5.4	94.9	85.5	30.7
Receiving holiday leave	%	4.5	95.0	84.7	31.2
Satisfaction with hours worked[b]	no.	7.4	8.0	8.2	7.7
Hours per week worked	hrs	20.3	40.2	39.5	34.4
Want less work	%	9.3	31.4	35.4	16.7
Want more work	%	40.4	9.4	14.4	26.9
Want 5 or more hrs/wk in main job	%	36.2	8.3	12.1	26.0
Want 10 or more hrs/wk in main job	%	23.9	4.2	8.2	19.3
Hours vary on a weekly basis	%	5.5	1.5	1.8	4.2
Work irregular hours	%	12.7	4.6	8.8	2.7
Satisfaction with job security[b]	no.	8.2	9.1	7.6	6.7
More 50% sure will lose job next yr	%	6.1	3.0	8.9	13.8
At least 75% sure will lose job next yr	%	4.5	2.2	8.1	11.6
With employer less than a year, not expecting to be there next year	%	2.1	2.3	4.6	4.9
Average time with current employer	yrs	2.8	7.1	4.2	2.1
Satisfaction with nature of work[b]	no.	8.0	8.6	9.0	8.3
Lower skilled job	%	54.1	20.7	11.9	42.6
Training from employer in last year	%	22.0	47.9	45.4	34.0
Satisfaction with work–life balance[b]	no.	8.3	7.9	8.0	7.6
Aged 25 or more with dependants	%	13.2	22.1	19.3	11.6
L/T health cond. affects work ability	%	10.0	6.7	7.5	11.1

a Casual, ongoing and fixed-term categories exclude labour hire employees. **b** The satisfaction scale ranges from zero (dissatisfied) to ten (satisfied). **L/T** Long term.

Source: Productivity Commission estimates derived from HILDA 2003, release 3.0.

Table B.13 **Characteristics of selected groups of casual employees,[a] 2003**

Age group		Aged 15–24		Aged 25–54[a]				Aged 55–64
Characteristic				Have depend		Low level edu		
		Student	Not student	Male	Female	Male	Female	All
Proportion of casual employees	%	29.3	17.9	3.1	7.9	6.3	11.0	10.5
Proportion of all employees	%	6.4	3.9	0.7	1.7	1.4	2.4	2.3
Overall job satisfaction[b]	no.	8.7	8.9	6.8	9.1	6.7	9.1	9.1
Looked for another job in past 4 wks	%	25.9	24.3	29.5	18.3	24.7	17.1	6.3
Satisfaction with total pay[b]	no.	8.1	8.0	6.7	7.8	6.8	7.9	8.1
Earning less than $300 per week	%	83.5	65.2	6.2	48.3	28.5	64.3	55.9
More than one job	%	14.4	6.5	11.1	20.1	7.3	14.5	16.9
Receiving sick leave	%	2.2	5.0	11.0	6.5	9.3	4.1	8.0
Receiving holiday leave	%	1.7	3.6	12.6	5.4	8.5	3.3	7.3
Satisfaction with hours worked[b]	no.	7.4	7.4	5.9	7.4	6.0	7.4	8.9
Hours per week worked	hrs	15.4	20.4	34.1	20.1	32.1	20.1	18.5
Want less work	%	6.4	5.2	23.4	13.1	14.5	14.7	9.4
Want more work	%	43.1	47.3	29.8	46.6	39.7	42.5	23.3
Want 5 or more hrs/wk in main job	%	37.2	39.9	29.8	42.9	38.9	39.2	22.1
Want 10 or more hrs/wk in main job	%	20.3	29.1	25.9	25.4	31.8	26.9	15.3
Hours vary on a weekly basis	%	4.9	3.5	9.0	6.0	10.1	4.0	9.8
Work irregular hours	%	12.2	14.8	25.4	13.7	16.3	9.1	13.2
Satisfaction with job security[b]	no.	8.9	8.7	5.3	7.8	6.2	7.7	8.1
More 50% sure will lose job next yr	%	5.3	4.2	7.1	5.0	14.5	6.4	4.7
At least 75% sure will lose job next yr	%	4.1	3.8	5.7	3.0	8.1	2.9	3.5
With employer less than a year, not expecting to be there next year	%	2.2	1.1	1.5	1.0	1.7	1.9	3.3
Average time with current employer	yrs	1.3	1.2	3.1	3.8	2.6	3.5	7.5
Satisfaction with nature of work[b]	no.	7.6	8.3	8.1	8.1	7.5	8.1	8.8
Lower skilled job	%	65.4	69.2	55.7	40.9	79.2	52.8	40.7
Training from employer in last year	%	21.0	20.0	25.0	24.8	16.8	19.3	18.4
Satisfaction with work–life balance[b]	no.	8.5	8.2	6.1	8.5	7.0	8.4	9.3
Aged 25 or more with dependants	%	0.1	0.8	100.0	100.0	27.0	31.4	19.0
L/T health cond. affects work ability	%	3.7	7.6	14.3	13.4	25.9	11.6	15.8

a Excluding labour hire casual employees. **b** The satisfaction scale ranges from zero (dissatisfied) to ten (satisfied). **Depend** dependants. **L/T** Long term.

Source: Productivity Commission estimates derived from HILDA 2003, release 3.0.

Table B.14 **Labour market transitions of people of working age from 2001 to 2003**

State '01[a]		*State '02*[a]		*State '03*[a]				
	%		%	%	%	%	%	%
				NTE	SE/E	Ongoing	Unemployed	NILF
		NTE	11.2	6.8	0.2	3.1	0.3	0.7
		SE/E	0.5	0.1	0.3	0.0	0.0	0.1
NTE	19.9	Ongoing	5.7	1.3	0.1	4.0	0.1	0.2
		Unemployed	0.8	0.4	0.0	0.2	0.1	0.1
		NILF	1.6	0.5	0.0	0.2	0.1	0.8
		NTE	0.8	0.2	0.2	0.2	0.0	0.1
		SE/E	9.6	0.4	8.4	0.3	0.1	0.3
SE/E	11.8	Ongoing	0.6	0.1	0.1	0.4	0.0	0.0
		Unemployed	0.2	0.1	0.0	0.0	0.0	0.1
		NILF	0.7	0.0	0.2	0.0	0.0	0.4
		NTE	4.5	1.8	0.1	2.2	0.0	0.3
		SE/E	1.0	0.2	0.5	0.3	0.0	0.0
Ongoing	38.5	Ongoing	31.1	2.3	0.5	27.1	0.2	1.0
		Unemployed	0.5	0.1	0.0	0.2	0.1	0.1
		NILF	1.4	0.2	0.0	0.3	0.0	0.8
		NTE	1.5	0.7	0.0	0.4	0.2	0.2
		SE/E	0.2	0.0	0.0	0.0	0.0	0.0
Unemployed	5.2	Ongoing	0.8	0.2	0.0	0.5	0.0	0.0
		Unemployed	1.6	0.4	0.1	0.2	0.6	0.3
		NILF	1.2	0.2	0.0	0.1	0.2	0.7
		NTE	2.7	1.3	0.1	0.6	0.1	0.5
		SE/E	0.5	0.1	0.3	0.0	0.0	0.1
NILF	24.6	Ongoing	1.1	0.1	0.0	0.7	0.0	0.2
		Unemployed	1.6	0.4	0.0	0.2	0.5	0.5
		NILF	18.7	1.1	0.3	0.6	0.7	15.9
	100.0		100.0	19.1	11.7	41.9	3.6	23.7

[a] Column or area totals may not sum to total values due to rounding errors. **NTE** (non-traditional employees) includes casual employees, fixed-term employees and labour hire employees. **SE/E** (self-employed/employers) includes employers, employers who pay themselves a wage, contractors, including self-employed labour hire contractors, and other self-employed persons. Unpaid family workers are excluded from SE/E and the analysis. **Ongoing** excludes ongoing labour hire employees. A person is defined as being **unemployed** if: (i) that person was not employed for at least one hour during the survey reference week; (ii) had actively looked for work in the four weeks prior to the reference week; and (iii) was available for work in the reference week, or waiting to start a new job within four weeks of the reference week, or was waiting to be called back to a job from which the person had been stood down for less than four weeks. The unemployment rate of the sample falls faster between 2001 to 2003 than the economy-wide unemployment rate because, while the unemployment rate of labour force entrants is high, it falls rapidly as work experience is gained. That is, the divergence occurs because the sample excludes new labour market entrants in 2002 and 2003. **NILF** (not in the labour force) includes those marginally attached to the labour force as well as those with no attachment to the labour force. The marginally attached are defined as people who: (i) want to work and are actively looking for work, but not available to start work in the reference week; or (ii) want to work and are not actively looking for work, but are available to start within four weeks of the survey reference week. The table tracks the 'employment' state of all surveyed persons aged at least 15 in 2001, and no more than 64 in 2003, from 2001, through 2002 and 2003.

Source: Productivity Commission estimates derived from HILDA 2001, 2002 and 2003 surveys, release 3.0.

Table B.15 **Employee labour market transitions from 2001 to 2003**[a]

State '01[b]		*State '02*[b]		*State '03*[b]				
	%		%	% Casual	% Fixed-term	% Labour hire	% Ongoing	% Unemployed
		Casual	11.5	7.0	0.5	0.3	3.2	0.4
		Fixed-term	1.0	0.2	0.3	0.0	0.5	0.0
Casual	18.5	Labour hire	0.6	0.3	0.0	0.1	0.1	0.1
		Ongoing	4.4	0.8	0.5	0.1	3.0	0.1
		Unemployed	1.0	0.5	0.1	0.0	0.2	0.2
		Casual	0.5	0.2	0.2	0.0	0.1	0.0
		Fixed-term	3.6	0.1	2.1	0.0	1.3	0.1
Fixed-term	8.6	Labour hire	0.1	0.0	0.0	0.0	0.1	0.0
		Ongoing	4.2	0.2	0.5	0.1	3.2	0.1
		Unemployed	0.2	0.0	0.1	0.0	0.0	0.0
		Casual	0.4	0.3	0.1	0.0	0.1	0.0
		Fixed-term	0.2	0.0	0.1	0.0	0.1	0.0
Labour hire	3.3	Labour hire	1.1	0.2	0.0	0.5	0.3	0.0
		Ongoing	1.3	0.1	0.0	0.1	1.1	0.0
		Unemployed	0.2	0.1	0.1	0.0	0.1	0.0
		Casual	2.7	1.5	0.2	0.0	1.0	0.0
		Fixed-term	3.9	0.3	1.0	0.0	2.6	0.0
Ongoing	63.6	Labour hire	1.0	0.1	0.1	0.2	0.6	0.0
		Ongoing	55.2	1.4	2.4	0.4	50.6	0.4
		Unemployed	0.7	0.2	0.0	0.0	0.4	0.1
		Casual	1.7	0.8	0.1	0.1	0.5	0.2
		Fixed-term	0.3	0.1	0.1	0.0	0.1	0.1
Unemployed	6.1	Labour hire	0.4	0.0	0.0	0.1	0.2	0.1
		Ongoing	1.3	0.2	0.0	0.1	0.9	0.1
		Unemployed	2.3	0.6	0.1	0.1	0.4	1.2
	100.0		100.0	15.0	8.5	2.6	70.6	3.3

a Casual, fixed-term and ongoing categories exclude labour hire employees. Labour hire contractors, employers, employers who are employees of their own businesses, the self-employed and those not in the labour force are excluded from the estimates of table B.15. Members of the employee labour force aged at least 15 in 2001, and no more than 64 in 2003, are tracked from 2001, through 2002 and 2003. A person is defined as **unemployed** if: (i) that person was not employed for at least one hour during the survey reference week; (ii) had actively looked for work in the four weeks prior to the reference week; and (iii) was available for work in the reference week or waiting to start a new job within four weeks of the reference week; or was waiting to be called back to a job from which they had been stood down for less than four weeks. The unemployment rate of the sample between 2001 to 2003 falls faster than the unemployment rate in the overall employee workforce because, while the unemployment rate of labour force entrants is high, it falls rapidly as work experience is gained. In addition, the unemployment rate falls as some of the unemployed join those not in the labour force in 2002 and 2003 and exit the sample. Because of these effects, the unemployment rate, as a proportion of those in the employee labour market, falls below the rate that would be obtained if a new sample from the employee labour market were drawn in 2002 or 2003. **b** Column and area totals may not sum to actual values due to rounding errors.

Source: Productivity Commission estimates derived from HILDA 2001, 2002 and 2003 surveys, release 3.0.

Table B.16 **Families earning the majority of their wage income from non-traditional and ongoing work, by total family income decile, 2003**

$ per week	*<428*	*428-621*	*622-790*	*791-952*	*953-1120*	*1121-1290*	*1291-1538*	*1539-1805*	*1806-2255*	*>2255*
	%	%	%	%	%	%	%	%	%	%
Non-traditional	7.0	4.0	3.4	2.4	2.1	1.9	1.4	1.6	1.9	2.0
Ongoing	3.0	6.0	6.6	7.6	7.9	8.1	8.6	8.4	8.1	8.0
	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0

Source: Productivity Commission estimates derived from HILDA 2003, release 3.0.

Table B.17 **Non-traditional income earners who are, or are not, the largest income earner in their family, by total family income decile,[a] 2003**

$ per week	*<428*	*428-621*	*622-790*	*791-952*	*953-1120*	*1121-1290*	*1291-1538*	*1539-1805*	*1806-2255*	*>2255*	*Total*
	%	%	%	%	%	%	%	%	%	%	
Non-traditional income earner, earning largest wage in family											
	15.3	8.8	7.4	5.2	4.7	4.1	3.1	3.6	3.9	4.4	60.7
Other non-traditional income earners											
	0.9	1.8	2.1	3.2	3.7	4.6	5.2	5.1	6.8	6.0	39.3
Total[b]	**16.2**	**10.7**	**9.5**	**8.5**	**8.4**	**8.7**	**8.3**	**8.7**	**10.7**	**10.4**	**100.0**

a As a proportion of total number of non-traditional income earners. **b** Totals may be affected by rounding.

Source: Productivity Commission estimates derived from HILDA 2003, release 3.0.

Table B.18 **Components of total family income, by work arrangement and by total family income decile, per cent,[a] 2003**

$ per week	*<428*	*428-621*	*622-790*	*791-952*	*953-1120*	*1121-1290*	*1291-1538*	*1539-1805*	*1806-2255*	*>2255*
Non-traditional income exceeds ongoing income										
Non-traditional income	66.3	69.3	72.4	67.8	65.8	67.7	66.7	66.9	64.8	52.6
Ongoing income	0.0	0.5	1.7	1.9	4.4	6.4	9.0	10.9	13.1	12.0
Government transfers	28.0	22.2	15.7	15.8	10.8	8.4	4.4	4.1	1.1	0.9
Non-wage private income	5.7	8.1	10.3	14.5	19.0	17.4	19.8	18.1	20.9	34.5
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Ongoing income exceeds non-traditional income										
Non-traditional income	1.0	0.9	1.2	2.4	2.9	4.2	4.9	6.0	5.9	5.4
Ongoing income	79.9	88.1	84.3	83.6	84.4	84.2	83.2	84.2	84.1	76.9
Government transfers	15.8	8.3	10.3	9.0	6.7	5.5	4.1	3.9	2.1	1.0
Non-wage private income	3.3	2.7	4.2	5.0	6.0	6.1	7.8	5.9	7.9	16.7
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

a The four sources of income for each individual were totalled for all members of each family and are reported as the average for families in each decile. **Non-wage private income** includes income from: businesses; interest; rent; dividends; superannuation; workers' compensation and non-government child support payments. Totals may be affected by rounding.

Source: Productivity Commission estimates derived from HILDA 2003, release 3.0.

C Work and retirement decisions of older Australians

The HILDA survey is a rich source of information about how the availability of non-traditional work may affect the timing of an employee's retirement decision. For those aged 45 and over, the survey provides information on:

- those considering changing their employment before retiring;
- those in transitional employment before retiring;
- factors that were important to retirees who leave work; and
- why people return to work from retirement.

C.1 Why might those considering changing their employment before retirement prefer non-traditional work?

Four in five (79.0 per cent) of those aged 45 and over in 2003, and declaring that they would like another job as a step toward retirement, work as ongoing employees, while just one in five (19.9 per cent) of those employees work as non-traditional employees (table C.1). However, almost three-quarters (71.6 per cent) of those who nominate themselves as partially retired work as non-traditional employees (table C.2).

The reasons for the large increase in the prevalence of non-traditional work becomes apparent when consideration is given to the changes which people want to make to their employment before retiring (table C.1). Ongoing employees who are considering changing their job before retiring nominate: working fewer hours; finding less demanding work; and changing their employment to casual or occasional work, as their preferred option. In many cases, choosing a job on the basis of these criteria will result in non-traditional rather than traditional employment. Accepting the stated reasons as given, it is likely that the availability of non-traditional employment may cause some people who would otherwise retire to remain in the workforce for longer than if non-traditional employment were not available.

Male casual employees indicate a stronger preference than female casual employees for the type of changes to their work arrangements that are consistent with entering non-traditional employment. They indicate that they are considering a different line of work, less demanding work and changing to casual or occasional work. Other changes strongly contemplated by males, that is, working from home and working for yourself, are likely to result in working as a self-employed contractor.

Table C.1 **Factors influencing those who would like another job to transition to retirement, employees aged 45 to 64,[a] 2003**

	Casual	*NTEs*	*Male NTEs*	*Female NTEs*	*Ongoing*
	%	%	%	%	%
How would you like your working arrangement to change?					
Less demanding work or less responsibilities	65.7	59.8	70.5	51.2	79.8
Different line of work	56.4	45.1	60.4	32.9	35.9
Change from full-time to part-time work	55.4	63.3	68.7	58.9	87.7
Change from full-time to casual/occasional work	54.3	52.9	62.7	45.1	58.4
Work for yourself	43.5	39.9	53.1	29.4	30.7
No longer work for yourself, work for another	16.3	17.3	17.7	17.0	13.7
More opportunity to work at home	49.9	53.1	66.0	42.8	51.4
Prop. of all employees wanting a transitional job	10.2	19.9	8.8	11.1	79.0

a Casual and ongoing categories exclude labour hire employees. **NTE** (non-traditional employee) includes casual employees. Fixed-term and labour hire not separately shown as small sample size does not allow estimation.

Source: Productivity Commission estimates derived from HILDA 2003, release 3.0.

C.2 How did those who changed their employment to transition to retirement, change it?

Examination of non-traditional employees who consider themselves to be partially retired confirms the importance of non-traditional employment as a precursor to retirement (table C.2). Two factors, working on a casual or occasional basis and working fewer hours, are the most frequently cited means by which people consider themselves to be partially retired. Female non-traditional employees are far more likely than male non-traditional employees to be partially retired in the sense that they work fewer hours, while males, as indicated in table C.1, are more likely to work in a different job and from home. Moreover, there is evidence that the changes are voluntary, not forced. Two-thirds (67.7 per cent) of non-traditional employees chose their current work arrangement without referring to others. That is their spouse, other family members or with reference to other people at their workplace (not shown). Females are more likely than males to have made the decision to partially retire without referring to another person, while males are more likely to consult others.

Ongoing employees who consider themselves to be partially retired are similar to non-traditional employees in that two thirds (67.9 per cent) decided of their own volition to transition to retirement. Most are partially retired because they work fewer hours. The second most important means by which they are partially retired is working in a less demanding job. Not surprisingly, as they are ongoing employees, they do not tend to work on a casual or occasional basis.

Table C.2 **What changes did people who are partially retired make to their work arrangements? (employees aged 45 to 64,[a] 2003)**

	Casual	*NTEs*	*Male NTEs*	*Female NTEs*	*Ongoing*
	%	%	%	%	%
How partially retired?					
Work fewer hours	56.6	58.9	46.2	67.2	82.3
Work in less demanding job	23.5	25.1	24.8	25.3	43.8
Work in a different job	13.4	11.9	15.8	9.3	5.2
Work on a casual or occasional basis	73.9	70.8	72.8	69.4	18.2
Work from home	5.9	7.7	15.6	2.5	7.3
Undertake voluntary or charity work	13.6	15.6	11.8	18.2	ne
Own or forced decision?					
Own decision	67.7	67.7	60.9	72.2	67.9
Forced decision	26.6	27.6	32.2	24.5	13.8
Proportion of total number of partial retirees	52.5	71.6	28.5	43.1	22.6

a Casual and ongoing categories exclude labour hire employees. **ne** Unable to be estimated due to small sample size. **NTEs** (non-traditional employees) includes casual employees. Fixed-term and labour hire not separately shown as small sample size does not allow estimation.

Source: Productivity Commission estimates derived from HILDA 2003, release 3.0.

C.3 Why return to work from retirement?

Those returning to work from retirement added an estimated 160 000 employees to the workforce in 2003. Of those people, 41 per cent worked as non-traditional employees (table C.3). For non-traditional employees, the two most frequently cited reasons for returning to work are the need for additional income and boredom. Females are far more likely to return to work for financial reasons, while boredom equally influenced males and females to return to work. The next two most frequently cited reasons are a good job offer and responding to an employer's request to return to work. More than a quarter (26 per cent) of male non-traditional employees indicate that a request from their employer was an important reason for returning to work. Over one in ten (12 per cent) female non-traditional employees indicated that spouse pressure was a reason for returning to work.

From an employer's perspective, non-traditional employment helped them regain the services of four in ten employees whose skills are valued sufficiently to

re-employ them. From an employee's perspective, the reasons why many of those returning to work choose non-traditional employment may be similar to the reasons why people work in a transition job prior to retiring (table C.2). That is, the flexibility of non-traditional employment allows many returning employees to adjust their conditions of employment to meet their current capabilities, needs and preferences.

Table C.3 **Factors cited as influencing a person to return to work from retirement, employees aged 45 to 64, 2003**

	All employees	*NTEs*[a]	*Male NTEs*[a]	*Female NTEs*[a]	*Ongoing employees*[b]
	%	%	%	%	%
Money	56.4	49.1	13.6	57.3	60.3
Boredom	34.2	37.7	40.0	37.1	32.7
Disliked retirement	12.2	17.1	32.5	13.6	9.1
Good job offer	15.6	19.5	21.1	19.2	13.4
Employer's need	13.9	17.3	26.3	15.2	12.0
Spouse pressure	6.7	9.7	**ne**	11.9	4.8
Pressure from other family member	4.3	7.3	11.3	6.3	2.3
Own health improved	5.3	2.1	**ne**	2.6	7.7
No longer need to care for person	3.5	3.1	**ne**	3.9	3.8
Death of partner	10.3	4.6	**ne**	5.6	14.6
Separation from partner	3.6	3.5	8.7	2.3	3.8
Proportion of all employees returning to work	100.0	40.8	7.6	33.2	57.5

[a] **NTEs** (non-traditional employees) includes casual employees. Fixed-term and labour hire not separately identified as relatively small sample size does not allow accurate estimation. [b] Excluding labour hire employees. **ne** sample too small to yield reliable estimate.

Source: Productivity Commission estimates derived from HILDA 2003, release 3.0.

C.4 Why might the timing of a person's retirement decision be influenced by the availability of non-traditional work?

In order of importance, the three most important reasons for a person aged from 45 to 64 retiring are: (i) own health; (ii) stress at work; and (iii) being made redundant (table C.4). Workplaces offering employees an option of varying their hours of work by working part-time or by changing the type of work performed, so that the stress and the effects of ill-health can be reduced, may result in some employees deferring retirement. In some cases, these changes could result in employees being reclassified as non-traditional employees.

Table C.4 **Factors important to retirement decision, proportion of persons aged from 45 to 64, 2003**

	All retirees	*Males*	*Females*
	%	%	%
Availability of pension	1.7	1.5	1.8
Offer of good financial terms or voluntary redundancy	5.1	10.4	1.5
Superannuation rules influenced decision	3.9	7.6	1.4
Sufficient non-wage income to retire	10.4	14.5	7.6
Partner's income	5.4	1.7	8.0
Made redundant	12.5	16.1	10.1
Reached compulsory retirement age	0.8	0.6	1.0
No other job available	3.7	5.3	2.7
Work stress	14.2	15.4	13.4
Pressure from employer	4.0	4.3	3.8
Own ill health	44.9	60.4	34.2
Partner's ill health	5.6	2.7	7.6
Other family member's ill health	3.6	2.2	4.6
Partner retired	4.4	2.1	6.0
Partner wanted me to retire	4.6	2.7	5.9
More time with spouse	6.6	4.7	7.9
More time with family	12.1	1.9	19.1
More leisure	11.9	11.7	12.0
Care for children	4.1	**ne**	6.9

ne unable to be estimated due to small sample size.

Source: Productivity Commission estimates derived from HILDA 2003, release 3.0.

D Modelling transitions from casual employment

This appendix details the econometric analysis undertaken to model the transitions of casual employees to other forms of employment or labour market states (see chapter 6). After providing an overview of the data used for modelling, the appendix describes the method used, before giving an explanation of the econometric results obtained.

D.1 Data source

The modelling of transitions from casual employment to other labour market states uses data from three successive waves of the Household, Income and Labour Dynamics in Australia (HILDA) survey: 2001, 2002 and 2003 (release 3.0). This survey is a representative panel data survey, based on around 13 000 persons and 7 000 households. It is conducted each year by the Melbourne Institute of Applied Economic and Social Research, on behalf of the Department of Family, Community Services and Indigenous Affairs (FaCSIA).

The advantage of HILDA over many other surveys lies in its longitudinal nature. Because the same persons are surveyed each year (except for sample attrition and additions), it is possible to track their life and labour market courses. Moreover, the survey sample is stratified in a way that, with the use of appropriate weights, makes it possible to produce population representative estimates. The survey is, therefore, suited to the analysis of labour market transitions.

Based on the HILDA survey data for 2001, 2002 and 2003, one dependent variable and 70 independent variables are constructed for the analysis of transitions. The dependent variable is a categorical variable that assumes values between 1 and 6 (inclusive), depending on the type of transition undertaken by a casual employee from one year to the next (table D.1). The transitions identified are from casual to:

1. casual;
2. ongoing;
3. fixed-term;

4. unemployed;
5. not in the labour force; and
6. self-employed/employer.

Given that it is a relatively infrequent form of employment, labour hire employment is not identified as a separate labour market state (see chapter 2).

Table D.1 **Transitions from casual employment to other labour market states[a]**

Transitions	*2001–02*	*2002–03*
	%	%
Casual to casual	55.1	52.0
Casual to ongoing	21.4	25.5
Casual to fixed-term	5.4	4.7
Casual to unemployed	5.1	3.8
Casual to not in the labour force	10.2	10.7
Casual to self-employed/employer	2.8	3.3
Total	**100.0**	**100.0**

[a] Population weighted estimates. Unlike table B.15 in appendix B, this table does not identify labour hire employees separately. As a result, transition proportions differ between those two tables.

Source: Productivity Commission estimates based on the HILDA survey, 2001–03, release 3.0.

From one year to the next, slightly more than half of all casual employees remain in that form of employment. About a quarter switch to ongoing employment, and one in ten leave the labour force. Fixed-term employment, unemployment and self-employed/employer are relatively infrequent destinations for casual employees.

Independent variables are constructed for the following categories: (i) demographic characteristics; (ii) language and migration; (iii) education; (iv) household characteristics; (v) work and unemployment experience; (vi) current employment; (vii) occupation; (viii) location; and (ix) industry. In addition, a variable is created to control for possible year effects linked to the business cycle. The names, descriptions, means and standard deviations of all independent variables are given in table D.2. Most variables are binary, that is, they take the value 0 if false and 1 if true. When binary variables are part of a set, they are said to be 'categorical'. Within each set of categorical variables, one variable has to be omitted during estimation (for example, New South Wales in the state of residence set), to avoid collinearity. A small number of variables are discrete or continuous, which means that they can take a range of values (for example, the number of children under five years of age in the household).

Table D.2 **Independent variables used in econometric modelling of transitions,[a] 2001 and 2002**

Name	*Based on HILDA variable(s)*	*Type of variable*	*Mean*[b]	*Standard deviation*[b]
Demographic characteristics				
Female and married	hgsex, mrcurr	Binary	0.3275	0.4694
Aged 15–19*	hgage	Categorical	0.2223	0.4159
Aged 20–24	hgage	Categorical	0.1486	0.3557
Aged 25–29	hgage	Categorical	0.0894	0.2854
Aged 30–34	hgage	Categorical	0.0984	0.2979
Aged 35–39	hgage	Categorical	0.1194	0.3243
Aged 40–44	hgage	Categorical	0.1134	0.3171
Aged 45–49	hgage	Categorical	0.0763	0.2656
Aged 50–54	hgage	Categorical	0.0561	0.2302
Aged 55–59	hgage	Categorical	0.0509	0.2198
Aged 60–64	hgage	Categorical	0.0251	0.1564
Has disability	hglth	Binary	0.1246	0.3304
Language and migration				
Spoken English poor	hgeng, hgeab	Binary	0.0082	0.0904
Australian born*	anyoa	Categorical	0.8147	0.3886
Pre-1986 immigrant	anyoa	Categorical	0.0894	0.2854
Post-1985 immigrant	anyoa	Categorical	0.0958	0.2944
Education				
Postgraduate degree	edhigh	Binary	0.0401	0.1961
Bachelor's degree	edhigh	Binary	0.0914	0.2882
Diploma or certificate	edhigh	Binary	0.3074	0.4615
Year 12	edhigh	Binary	0.1973	0.3980
Year 11 or less*	edhigh	Binary	0.3639	0.4812
Full-time student	edfts	Binary	0.2530	0.4348
Household characteristics				
No partner*	esbrd, hhprtid	Categorical	0.5516	0.4974
Partner employed	esbrd, hhprtid	Categorical	0.3623	0.4807
Partner unemployed	esbrd, hhprtid	Categorical	0.0127	0.1121
Partner not in the labour force	esbrd, hhprtid	Categorical	0.0734	0.2608
Number of children under five	tcr04	Discrete	0.1546	0.4518
HH income quartile 1*	hifefp, hifefn	Categorical	0.1134	0.3171
HH income quartile 2	hifefp, hifefn	Categorical	0.2485	0.4322
HH income quartile 3	hifefp, hifefn	Categorical	0.3159	0.4649
HH income quartile 4	hifefp, hifefn	Categorical	0.3222	0.4674
Work and unemployment experience				
Years unemployed (yrs)	ehtuj	Continuous	0.7522	1.8530
Tenure with employer (yrs)	jbempt	Binary	2.5799	4.1593
Current employment				
Employed full-time	esdtl	Binary	0.2421	0.4285
Prefers fewer hours	jbhrcpr	Categorical	0.1071	0.3093
Prefers more hours	jbhrcpr	Categorical	0.3585	0.4797
Prefers same hours*	jbhrcpr	Categorical	0.5344	0.4989

(Continued)

Table D.2 **(Continued)**

Name	*Based on HILDA variable(s)*	*Type of variable*	*Mean*[b]	*Standard deviation*[b]
Current employment (continued)				
Labour hire employee	jbmlh	Binary	0.0921	0.2892
Employed in public sector	jbmmplr	Binary	0.1398	0.3468
Chance of finding another job (%)	jbmpgj	Continuous	65.1487	34.1744
Chance of leaving job (%)	jbmplej	Continuous	31.8211	37.5969
Workplace has 20 or fewer employees	jbmwpsz	Binary	0.5202	0.4997
Occupation				
Manager and administrator	jbmocc2	Categorical	0.0045	0.0669
Professional	jbmocc2	Categorical	0.1176	0.3223
Associate professional	jbmocc2	Categorical	0.0555	0.2289
Tradesperson and related	jbmocc2	Categorical	0.0716	0.2578
Advanced clerical and service	jbmocc2	Categorical	0.0262	0.1598
Intermediate clerical, sales and service	jbmocc2	Categorical	0.2222	0.4158
Intermediate production and transport	jbmocc2	Categorical	0.0888	0.2845
Elementary clerical, sales and service	jbmocc2	Categorical	0.2300	0.4209
Labourer and related*	jbmocc2	Categorical	0.1836	0.3872
Location				
City	hhra	Categorical	0.5756	0.4943
Region	hhra	Categorical	0.4068	0.4913
Remote*	hhra	Categorical	0.0176	0.1315
New South Wales*	hhstate	Categorical	0.2874	0.4526
Victoria	hhstate	Categorical	0.2305	0.4213
Queensland	hhstate	Categorical	0.2231	0.4164
South Australia	hhstate	Categorical	0.1134	0.3171
Western Australia	hhstate	Categorical	0.0906	0.2870
Tasmania	hhstate	Categorical	0.0322	0.1765
Northern Territory	hhstate	Categorical	0.0049	0.0696
ACT	hhstate	Categorical	0.0180	0.1328
Industry				
Agriculture, forestry and fishing	jbmind2	Categorical	0.0446	0.2065
Mining	jbmind2	Categorical	0.0049	0.0697
Manufacturing	jbmind2	Categorical	0.0795	0.2706
Electricity, gas and water	jbmind2	Categorical	0.0030	0.0547
Construction	jbmind2	Categorical	0.0338	0.1806
Wholesale trade	jbmind2	Categorical	0.0338	0.1806
Retail trade	jbmind2	Categorical	0.2438	0.4295
Accommodation, cafés and restaurants*	jbmind2	Categorical	0.1369	0.3438
Transport and storage	jbmind2	Categorical	0.0300	0.1706
Communication services	jbmind2	Categorical	0.0150	0.1216

(Continued)

Table D.2 **(Continued)**

Name	*Based on HILDA variable(s)*	*Type of variable*	*Mean*[b]	*Standard deviation*[b]
Industry (continued)				
Finance and insurance	jbmind2	Categorical	0.0098	0.0983
Property and business services	jbmind2	Categorical	0.0765	0.2659
Government administration and defence	jbmind2	Categorical	0.0120	0.1089
Education	jbmind2	Categorical	0.0923	0.2895
Health and community services	jbmind2	Categorical	0.1095	0.3124
Cultural and recreational services	jbmind2	Categorical	0.0476	0.2130
Personal and other services	jbmind2	Categorical	0.0270	0.1621
2002–03 transition identifier (year effect)	Not applicable	Binary	0.4706	0.4992

[a] An asterisk next to a variable name indicates that this is the omitted category in a multi-category set. [b] In sample, non-weighted. **HH** household.

Source: Productivity Commission estimates based on the HILDA survey, 2001–03, release 3.0.

The independent variables describe the status of a person at the beginning of the period, that is, they are measured in 2001 (for the 2001–02 transition) and 2002 (for the 2002–03 transition).

D.2 Modelling approach

The approach adopted for the modelling of transitions has three components: model choice; variable selection; and data weighting.

Model choice

Econometric analysis of transitions from casual employment to other labour market states requires modelling of:

- multiple nominal outcomes — there are many possible outcomes, but their order is unimportant (unlike 'ordinal' outcomes); and
- case specific data — each independent variable assumes a unique value for each individual (Long and Freese 2006).

The multinomial logit model is the most frequently used model for this type of estimation (Caparrós Ruiz and Navarro Gómez 2004; Constant and Zimmermann 2004; Evans and Sikora 2004). It has the advantage of being able to model the

probability of each of many alternative outcomes occurring. By contrast, models such as the binary logit or probit can only encompass two outcomes.

The multinomial logit model requires the simultaneous estimation, by the maximum likelihood method, of a coefficients vector **β** for each of the following set of equations:

$$\Pr(y = 1 \mid \mathbf{x}) = \frac{1}{1 + \sum_{j=2}^{J} e^{\mathbf{x}\boldsymbol{\beta}_j}} \tag{D.1}$$

$$\Pr(y = m \mid \mathbf{x}) = \frac{e^{\mathbf{x}\boldsymbol{\beta}_j}}{1 + \sum_{j=2}^{J} e^{\mathbf{x}\boldsymbol{\beta}_j}} \tag{D.2}$$

where m = 1, … , J represents the number of possible outcomes;

j is an element of the {1, … , J} set; and

x is a vector of explanatory variables.

Equation D.1 differs from the (m − 1) equations represented by equation D.2 because the system comprising all equations is only identified by reference to a comparison outcome, or 'base'. The base outcome, m = 1 in the example above, is chosen arbitrarily, and its coefficients vector ($\boldsymbol{\beta}_1$) set to zero. By implication, the remaining coefficients vectors ($\boldsymbol{\beta}_2$, … , $\boldsymbol{\beta}_j$) measure changes relative to the base outcome. Changing the base outcome, that is, the parameterisation of the model, does not alter the model's results.

A disadvantage of the multinomial logit model is that it does not allow for fixed effects, panel data estimation. Thus, unlike a fixed effects probit model, for example, it cannot fully exploit the longitudinal nature of the data used in the estimation to control for unobserved heterogeneity among observations. Nonetheless, some of the advantages of panel data can be replicated in the multinomial logit, by pooling cross-sectional and time series data prior to estimation. This process, also known as the 'stacking' of cross-sections, has two advantages:

- It increases the number of observations, thus yielding coefficient estimates that are closer to their true population values.
- It allows for 'clustering' of repeated observations on individuals. The clustering technique, used in similar analyses (for example, Evans and Sikora 2004), generates correct standard errors when observations within a group (in this instance, belonging to the same person over time) are not independent.

Variable selection

The starting point of the variable selection process for the model is to consult selected literature on factors affecting transitions between forms of employment and between labour market states. These sources (Caparrós Ruiz and Navarro Gómez 2004; OECD 2002; Chalmers and Kalb 2001; Murtough and Waite 2000c) suggest a number of variables which, data permitting,[60] are included in the set of possible explanatory variables. Variables in this set include gender, educational attainment and previous unemployment duration. This initial set is supplemented with other variables, reflecting factors recognised in the theoretical literature as capable of influencing transitions (see chapter 3). This second set includes whether a person would prefer to work more hours, and the self-assessed chance of finding and accepting another job in the next twelve months, both of which may reflect a supply side decision to use casual employment as a stepping stone to ongoing employment.

The next step of the variable selection process is to progressively remove, from the extended set of independent variables, those which are not significant at least at the 10 per cent level, individually, or jointly if part of a set. This process leads to the removal of six variables:

- Male/female — this variable becomes not significant when the 'female x married' interaction variable is added. This suggests that gender and marital status do not independently influence transitions from casual employment.
- Married/not married — as above.
- Non-English speaking background — this variable is generally not significant in most configurations of the model. This may be due to a correlation with the 'Spoken English is poor' variable.
- Number of children aged 5–14 — in contrast to the 'Number of children under five' variable, this variable is not significant, suggesting that only the number of infant children influences a parent's labour supply decision.
- Work experience in any job — the lack of significance of this variable may be due to an inverse correlation with the 'Years unemployed' explanatory variable, which is significant.
- Probability of losing your job in the next 12 months — this variable proved to be not significant in most preliminary runs of the model. This suggests that labour market outcomes that depend mainly on demand-side decisions are not accurately predicted by the workers concerned.

60 In some cases, variables of interest could not be incorporated into the analysis because of their unavailability in all three waves of the HILDA survey: 2001, 2002 and 2003. These variables include employer provided training and having changed employers in the previous year.

Following the variable elimination process above, 70 independent variables remain in the preferred model, which are individually or jointly significant (because it is necessary to omit one variable in each set of categorical variables, these 70 variables represent 80 individual variables).

Data weighting

The stacking of transitions initially produces a dataset containing observations on persons who:

- were observed in 2001 and 2002, and were a casual in 2001; and
- were observed in 2002 and 2003, and were a casual in 2002.

That original dataset, therefore, contains either two or three observations on the same person (equivalent to one or two transitions, respectively). For example, someone who was a casual in 2001 and unemployed in 2002 only appears twice in the dataset, because the 2002–03 transition is not of interest here. By contrast, someone who was a casual in both 2001 and 2002 appears three times, as both the 2001–02 and 2002–03 transitions are modelled.

As mentioned in section D.1, HILDA sample data can be weighted to generate population estimates. Sample weights are designed to correct for the unequal probability of selection of individuals with different characteristics into the sample. When possible, it is desirable to fit econometric models with weighted data, to generate unbiased parameter estimates relevant to the whole population (Crockett 2005). Accordingly, the multinomial logit model in this paper was estimated using weighted data.[61]

The appropriate weights when dealing with repeated observations on the same persons are longitudinal weights. Ideally, longitudinal weights for 2001–02 or 2002–03 should be used for those persons only appearing twice in the dataset, and longitudinal weights for 2001–03 for those appearing in all three years. However, it is not possible to combine separate sets of weights within a single regression. Instead, the longitudinal weights provided for persons responding in all three years of the HILDA survey are used (*clnwtr*). This means dropping from the dataset observations on persons with only one transition *and* who responded in two years only. The number of observations lost because of this is relatively small (162 out of 2684).

61 A comparison of weighted and unweighted multinomial logit results confirms the benefits of that decision; weighting the data resulted in many more significant coefficients and in a higher Pseudo-R^2 value (results not shown).

The final estimation dataset is an unbalanced panel dataset containing a maximum of 2522 observations,[62] 708 of which are repeated observations on the same individuals. By definition, those repeated observations are for individuals who were casuals in 2001 and 2002, but not necessarily in 2003.

D.3 Results

Diagnostics

Diagnostic statistics and tests for the multinomial logit of transitions from casual employment are summarised in table D.3. These indicators are suggestive of a reasonable fit for the model chosen. The Wald χ^2 test rejects at the 1 per cent level the hypothesis that all coefficients are jointly equal to zero. The Pseudo-R^2 (or McFadden's R^2) is of the same order of magnitude as that of other published multinomial logits of employment choice (for example, Wilkins 2004). The Wald test for combining alternatives rejects the need to do so at the 1 per cent level. The Hausman test confirms that all alternatives are independent, in the sense that adding or removing an alternative does not affect the odds of the other alternatives (the 'independence of irrelevant alternatives' assumption).

Table D.3 **Diagnostic statistics and tests for the multinomial logit model**

Diagnostic statistic or test	*Value or result*
Number of observations	2038
Wald χ^2 (350)	167 962
Prob > χ^2	0.0000
Pseudo R^2	0.1590
Wald test for combining alternatives	No alternatives should be combined[a]
Hausman test of the independence of irrelevant alternatives (IIA)	All alternatives are independent from each other

[a] Null hypothesis that two alternatives should be combined rejected at the 1 per cent level for all possible pairs of alternatives. Alternatives should be combined if the coefficient estimates in their respective regressions are not significantly different from each other.

Source: Productivity Commission estimates based on the HILDA survey, 2001–03, release 3.0.

The fit of a model can also be assessed in terms of how well it predicts the average probability of a particular outcome occurring. Transition probabilities predicted by the model, shown in table D.4, are very close to the transitions actually observed (table D.1), which gives added confidence in the explanatory power of the model.

62 Not taking into account missing observations on some variables.

Table D.4 **Predicted transition probabilities from casual employment to other labour market states[a]**

Transitions	*Average predicted probability*
	%
Casual to casual	51.2
Casual to ongoing	25.2
Casual to fixed-term	5.5
Casual to unemployed	4.5
Casual to not in the labour force	10.2
Casual to self-employed/employer	3.4
Total	**100.0**

a Transition probabilities calculated for each individual and averaged across the sample (population weighted).

Source: Productivity Commission estimates based on the HILDA survey, 2001–03, release 3.0.

Marginal effects

The **β** vectors of coefficient estimates produced by the estimation of the multinomial logit model have no direct meaning, given the non-linear nature of that model. Two options exist for their interpretation:

- By taking the exponential of a coefficient, an *odds ratio factor* (or 'odds ratio') can be calculated, measuring how the ratio of the probability of a particular outcome (for example, casual to ongoing) to the probability of the base outcome (here, casual to casual) changes as a result of the influence of the independent variable; and
- By calculating the *marginal effect* of a particular independent variable, it is possible to measure how the probability of a particular outcome occurring changes, as the value of the independent variable changes. Unlike odds ratios, marginal effects vary depending on the level of all the explanatory variables in the model. Usually, the levels chosen are the means (weighted or not), but other values may be preferred (see below).

In this paper, the estimation results are presented as marginal effects, calculated mainly at the weighted means of the explanatory variables. The marginal effect of a discrete change in a variable is given by Long and Freese (2006):

$$\frac{\Delta \Pr(y = m \mid \mathbf{x})}{\Delta x_k} = \Pr(y = m \mid \mathbf{x}, x_k = x_E) - \Pr(y = m \mid \mathbf{x}, x_k = x_S) \quad \text{(D.3)}$$

This formula measures the change in the conditional probability that the dependent variable y be equal to m when the value of x_k changes by one unit, and all other elements of the **x** vector are held at their chosen values.

Using marginal effects over odds ratios has two advantages:

- A coefficient and its associated odds ratio may be significant, but not give rise to a significant marginal effect (and vice versa). Arguably, therefore, the significance of the relationship between an explanatory variable and the probability of a particular outcome occurring is more accurately captured by the marginal effect.
- The sign of a coefficient (and the magnitude of the associated odds ratio) is not an accurate guide to the direction of the marginal effect linking an explanatory variable and the various outcome probabilities.

The marginal effects of all the explanatory variables in the multinomial logit model are reported in table D.5, for each of the six possible transition outcomes. The level of significance of each marginal effect is also reported.

The interpretation of the marginal effects contained in table D.5 differs, depending on the type of explanatory variable considered:

- Binary variable — the marginal effect measures the change in the probability of a particular outcome occurring when the variable changes from 0 to 1. For example, the presence of a disability is associated with a probability of a casual moving out of the labour force that is 3.5 percentage points higher than the average predicted probability (equal to 10.2 per cent; see table D.4).
- Categorical variable — the marginal effect measures the change in the probability of a particular outcome occurring when the person belongs to a category other than the reference category (the one variable omitted from a set of categorical variables). For example, compared with a person who prefers to work the same number of hours, a person who would rather work more hours has a probability of moving from casual to ongoing employment that is 5.6 percentage points higher.
- Continuous or discrete variables — the marginal effect measures the change in the probability of a particular outcome occurring when the variable increases by one unit. For example, an increase of one year in the number of years spent unemployed is associated with a probability of moving from casual to ongoing employment that is 1.8 percentage points lower than the average probability of 25.2 per cent (table D.5). This is an illustration of what is known as the 'scarring' effect of unemployment.

Table D.5 Marginal effects of explanatory variables in the transition model[a, b]

	Marginal effect on the probability of moving from casual to:					
Explanatory variable	*Casual*	*Ongoing*	*Fixed-term*	*Unemployed*	*Not in the labour force*	*Self-employed/employer*
Demographic characteristics						
Female and married	0.0260	-0.0388	-0.0075	-0.0015	0.0219**	-0.0015
Aged 20–24	-0.0317	0.0091	0.0162	0.0007	0.0038	0.0020
Aged 25–29	-0.0472	-0.0094	0.0281	0.0007	0.0233	0.0045**
Aged 30–34	-0.0195	-0.0488	0.0337	0.0001	0.0315	0.0031*
Aged 35–39	-0.0909*	0.0581	0.0362	0.0001	-0.0076	0.0042**
Aged 40–44	0.0159	-0.0626*	0.0423	0.0001	-0.0025	0.0068**
Aged 45–49	0.0338	-0.0631	0.0221	0.0000	-0.0006	0.0078**
Aged 50–54	-0.0009	-0.0229	0.0095	-0.0002	0.0096	0.0048**
Aged 55–59	0.0370	-0.0830	0.0187	-0.0005	0.0248	0.0029
Aged 60–64	-0.0582	-0.0429	0.0101	-0.0009***	0.0784	0.0135**
Has disability	-0.0519	0.0159	0.0007	-0.0002	0.0353***	-0.0002
Language and migration						
Spoken English poor	0.2552***	-0.2016***	-0.0022	-0.0055***	-0.0453***	-0.0055***
Pre-1986 immigrant	-0.0289	0.0345	0.0014	0.0001	-0.0035	-0.0037**
Post-1985 immigrant	-0.0332	0.0190	-0.0129*	0.0002	0.0281*	-0.0012
Education						
Postgraduate degree	-0.0968	0.0755	0.0208	-0.0004	-0.0014	0.0023
Bachelor's degree	-0.0372	0.0170	0.0161	-0.0002	-0.0013	0.0057**
Diploma or certificate	-0.0210	0.0284	0.0008	-0.0002	-0.0105	0.0025**
Year 12	-0.0315	0.0184	0.0275*	-0.0003*	-0.0169*	0.0028*
Full-time student	0.0278	-0.0748	0.0505**	-0.0019*	-0.0014	-0.0019
Household characteristics						
Partner employed	-0.0399	0.0500	-0.0049	-0.0003	-0.0050	0.0001
Partner unemployed	-0.1738	0.1044	0.0588	0.0007*	-0.0046	0.0146***
Partner not in the labour force	0.0063	0.0043	-0.0124	0.0001	0.0027	-0.0010
Number of children under five[c]	0.0277	-0.0193	-0.0104	0.0019	0.0001	0.0019**
HH income quartile 2	-0.0688*	0.0649	0.0171	0.0001	-0.0134	0.0001
HH income quartile 3	-0.0829*	0.0777	0.0173	0.0001	-0.0145	0.0023
HH income quartile 4	-0.0775*	0.0844	0.0160	0.0000	-0.0238**	0.0009
Work and unemployment experience						
Years unemployed[c]	0.0165*	-0.0185**	-0.0002	-0.0004	0.0026**	-0.0004
Tenure with employer (yrs)[c]	0.0028	-0.0019	-0.0010	-0.0001*	0.0003	-0.0001
Current employment						
Employed full-time	-0.1735***	0.1697***	0.0308***	0.0012	-0.0280***	0.0012
Prefers fewer hours	0.0266	-0.0240	-0.0028	0.0000	0.0021	-0.0018
Prefers more hours	-0.0463	0.0556*	0.0084	-0.0001	-0.0167***	-0.0009
Labour hire employee	0.0762*	-0.0576	-0.0114*	-0.0023	-0.0052	-0.0023*
Employed in public sector	-0.0144	-0.0109	0.0293	0.0007	-0.0048	0.0007

(Continued)

Table D.5 **(continued)**

	Marginal effect on the probability of moving from casual to:					
Explanatory variable	*Casual*	*Ongoing*	*Fixed-term*	*Unemployed*	*Not in the labour force*	*Self-employed/employer*
Current employment (continued)						
Chance of finding another job (%)[c]	-0.0010**	0.0009**	0.0001	0.0000	0.0000	0.0000
Chance of leaving job (%)[c]	-0.0013***	0.0010**	0.0000	0.0000**	0.0003***	0.0000**
Workplace has 20 employees or fewer	0.0072	-0.0151	-0.0075	0.0026*	0.0126**	0.0026**
Occupation						
Manager and administrator	0.3282***	-0.2556***	-0.0245***	-0.0019***	-0.0502***	0.0041
Professional	0.1136**	-0.1260**	0.0071	-0.0010	0.0093	-0.0030
Associate professional	0.0297	-0.0171	0.0235	-0.0012	-0.0281**	-0.0068**
Tradesperson and related	0.0505	-0.0506	0.0005	-0.0006	0.0037	-0.0035
Advanced clerical and service	0.1479**	-0.1110*	0.0038	-0.0019***	-0.0391***	0.0004
Intermediate clerical, sales and service	0.0471	-0.0408	0.0112	-0.0008*	-0.0128	-0.0040*
Intermediate production and transport	0.0375	-0.0142	-0.0067	-0.0012*	-0.0134	-0.0020
Elementary clerical, sales and service	0.0689	-0.0644	0.0044	-0.0009*	-0.0033	-0.0047*
Location						
City	0.0337	-0.0395	-0.0019	-0.0004	0.0049	0.0032*
Region	0.0656	-0.0804	0.0024	-0.0003	0.0084	0.0042*
Victoria	0.0006	-0.0064	-0.0063	-0.0003*	0.0104	0.0020
Queensland	0.0392	-0.0418	-0.0020	-0.0003*	0.0046	0.0003
South Australia	0.0705*	-0.0738*	0.0007	-0.0001	0.0042	-0.0015
Western Australia	0.0189	-0.0354	-0.0128	-0.0004*	0.0174	0.0123
Tasmania	-0.0591	0.0128	0.0543	-0.0002	0.0059	-0.0136***
Northern Territory	-0.3531*	0.3334	0.0258	-0.0006***	0.0081	-0.0136***
ACT	-0.0521	-0.0114	0.0207	0.0003	0.0200	0.0224
Industry						
Agriculture, forestry and fishing	0.0329	-0.0842**	-0.0166*	0.0016	0.0625	0.0038
Mining	-0.1946	-0.0329	0.1305	-0.0010***	0.0915	0.0065
Manufacturing	-0.1759***	0.1876***	-0.0026	0.0053***	-0.0141	-0.0002
Electricity, gas and water	-0.6159***	0.6094***	0.0306	0.0295***	-0.0517***	-0.0018***
Construction	-0.1075	0.0933	0.0125	-0.0004	-0.0060	0.0082**
Wholesale trade	-0.2572***	0.2308***	-0.0120	0.0015*	0.0284	0.0086**
Retail trade	-0.0787	0.0951*	-0.0123*	0.0015**	-0.0077	0.0022
Transport and storage	-0.1085	0.0752	-0.0117	0.0009	0.0377	0.0064**

(Continued)

Table D.5 **(continued)**

	Marginal effect on the probability of moving from casual to:					
Explanatory variable	*Casual*	*Ongoing*	*Fixed-term*	*Unemployed*	*Not in the labour force*	*Self-employed/employer*
			Industry (continued)			
Communication services	-0.2251**	0.1714*	0.0089	0.0006	0.0374	0.0067*
Finance and insurance	-0.1852	0.2015	0.0279	0.0062***	-0.0517***	0.0012
Property and business services	-0.1758***	0.1401**	0.0296	-0.0007	0.0015	0.0052**
Government administration and defence	-0.0624	-0.0327	-0.0067	-0.0010***	0.1016	0.0012
Education	-0.1173	0.0761	0.0130	0.0001	0.0269	0.0012
Health and community services	-0.1401**	0.1130**	0.0213	0.0026***	-0.0016	0.0049**
Cultural and recreational services	-0.0867	0.0109	0.0455	-0.0004	0.0290	0.0017
Personal and other services	-0.2180**	0.1193	0.0844	-0.0010***	0.0037	0.0116***
			Year effect			
2002–03 transition identifier (year effect)	-0.0530**	0.0527**	-0.0015	0.0001	0.0019	0.0001

a Marginal effects of binary variables are measured at the weighted means of all variables. Marginal effects of continuous or discrete variables are calculated for a change of one unit centred on the base value (other variables are measured at the weighted means). Marginal effects of categorical variables are calculated by setting all variables in the set equal to zero, except for one set which is set equal to one (other variables measured at the weighted means). The reference person (defined by the omitted binary and categorical variables) is an unpartnered man or woman, is aged 15–19, has no disability, has good English, is not an immigrant, has completed Year 11 or fewer years of education, is not a full-time student, is in the first household income quartile, prefers to work the same number of hours per week, is not employed full-time, is not employed through a labour hire agency, works in the private sector, works in a workplace with 20 employees or more, works as a labourer in the accommodation, cafes and restaurant industry, and lives in a remote part of NSW. **b** Asterisks denote level of significance. *** significant at the 1 per cent level. ** significant at the 5 per cent level. * significant at the 10 per cent level. Due to an insufficient number of observations, the level of significance of the marginal effects of variables explaining transitions from casual to unemployed and to self-employed/employer could not be calculated. The levels of significance reported are those of the corresponding coefficient estimates. **c** Continuous or discrete variable. **HH** household. The **Stata** econometric package was used for estimation.

Source: Productivity Commission estimates based on the HILDA survey, 2001–03, release 3.0.

Irrespective of how they are measured, all marginal effects associated with a particular variable must sum up to one (as, by definition, the increased probability of some outcomes occurring makes other outcomes less likely).

As mentioned above, marginal effects may be calculated for different sets of values of the explanatory variables. Traditionally, the means of all variables are used, but there are circumstances when means are not best suited to the evaluation of marginal effects of interest.

To illustrate, it may be worthwhile knowing what the marginal effect of a particular explanatory variable is for persons other than the 'average' person. For example, it may be of interest to compare how a preference for more work hours affects the transition probability between casual and ongoing employment for:

- a person with two children under five, and whose partner is not in the labour force; and
- a person with two children under five, and whose partner is employed.

To answer this question, it is necessary to calculate the predicted probability of transition for each group of interest. This is achieved by calculating the probability twice, once with explanatory variable settings describing the first category of persons, the second time with settings describing the second category. The two sets of results are then compared in terms of the marginal effect of wanting more work hours on the predicted probability.

Based on the multinomial logit model estimated earlier, the change in the probability of moving from casual to ongoing employment caused by a preference for more work hours is 0.005 percentage points higher for the person whose partner is employed (results not shown). This result could be interpreted as indicating that, for dual-income couples, the additional income from one parent moving from casual to ongoing employment is sufficient to offset any increase in paid child care expenses and the reduction in social security benefits that the move entails. For reasons of brevity, such detailed scenarios are not explored further in this paper.

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