IN THE FAIR WORK COMMISSION

AM2015/2 Family Friendly Work Arrangements

WITNESS STATEMENT OF JULIE TOTH

I, Julie Toth of 441 St Kilda Rd, Melbourne 3004 in the state of Victoria, make the following statement:

- 1. I am the Chief Economist for the Australian Industry Group (**Ai Group**). I have been employed in this position since April 2012. My curriculum vitae is attached to this statement and marked **Attachment A.**
- 2. My responsibilities in this position include leading Ai Group's economics research team; producing and commenting on economics-based research; producing Ai Group's highly regarded industry surveys, annual business outlooks and international comparisons; speaking at business, industry and economics events; participating in Government consultation processes; and economic commentary for the media.
- 3. I regularly appear in *Annual Wage Review* proceedings before the Fair Work Commission. I also participate on a regular basis in the Fair Work Commission's Minimum Wages Research Group.
- 4. In addition to my role at Ai Group, I am currently:
 - an Adjunct Professor of Economics for the MBA program at Deakin University's School of Business and Law;
 - an advisory board member for the department of economics at Deakin University;
 - a member of the Melbourne Economic Forum, hosted by the University of Melbourne and Victoria University; and
 - a member of the National Economic Policy Panel of the Economics Society of Australia.

- 5. Prior to joining Ai Group I was a senior economist at ANZ Bank (7 years), Research Manager and Senior Economist at the Productivity Commission (9 years), Economist at the Industry Commission (1 year), Economist at the Bureau of Immigration and Population Research (2 years), and Economist at the Department of Employment, Education and Training (2 years).
- My formal qualifications are a Master of Industrial Relations and Labour Economics (National Key Centre of Industrial Relations, Monash University), a Bachelor of Economics (Honours) (University of Melbourne) and a Bachelor of Arts (University of Melbourne).
- 7. I am aware of the ACTU's claim in relation to family friendly working hours in modern awards.
- I make this statement to the best of my knowledge and professional expertise. In making this statement I have relied on established economic definitions and referred to existing published data, e.g. the Australian Bureau of Statistics (ABS).

Female Participation in the Labour Force

 ABS labour force data indicate that in August 2017, the Australian labour force participation rate for women aged 15 to 64 years reached a record high of 71.9% of the civilian female population in this age group (chart 1).





Source: ABS 6291.0.55.001 Labour Force, Australia, Detailed - Electronic Delivery, August 2017. Table 01. Labour force status by Age, Social marital status, and Sex

10. ABS labour force data indicate that between the year 2000 and the year 2017, labour force participation rates for women increased for women aged 25 years and over but declined for women aged 15 to 24 years (chart 2 and table below). The decline in participation for women aged 15-24 years is related to rising education participation over this period. The increase in participation for women aged 25 years and over reflects a range of socio-economic factors. It indicates that barriers to labour force entry for women have reduced over this period.

Age group	Aug 2000	Aug 2017
15-19	57.9	54.3
20-24	77.0	75.0
25-34	69.5	75.2
35-44	71.6	78.6
45-54	71.2	79.1
55-64	36.0	60.5
65+	2.8	9.5
15-64 years	65.6	72.1
All women (seasonally adjusted)	55.1	59.9

Female labour force participation rates by age group (original monthly data)

Source: ABS 6291.0.55.001 Labour Force, Australia, Detailed - Electronic Delivery, August 2017. Table 01. Labour force status by Age, Social marital status, and Sex



Chart 2: Female labour force participation rates by age group, to Aug 2017

Source: ABS 6291.0.55.001 Labour Force, Australia, Detailed - Electronic Delivery, August 2017. Table 01. Labour force status by Age, Social marital status, and Sex

11. With regard to labour force participation rates for women with children, the Productivity Commission's Final Report on Childcare and Early Childhood learning (2014) found that employment participation for women with children improved in Australia in the two decades to 2014 (from 57% to 67% of women with children under 15 years) but that the proportion working part-time had stayed reasonably constant at 58% of working mothers:

The workforce participation rate of mothers with a child aged under 15 years (consistent with that for all women) has grown substantially in recent decades, from 57 per cent in 1994 to 67 per cent in 2014. This trend is evident for partnered and single mothers, and across different ages and numbers of children. There are notable differences in the participation rates of these groups. More mothers work part time than full time — in 2014, around 58 per cent of employed mothers with a child aged under 15 years worked part time. Unlike the growth in the maternal participation rate, there has been little change in the proportion of employed mothers working part time in recent decades.¹

¹ Productivity Commission, *Childcare and Early Childhood Learning, Productivity Commission Inquiry Report*, October 2014, at page 183.

Characteristics of Part-time Employment

- 12. The ABS records² some key characteristics of part-time employees in Australia as set out below. Part-time employees are defined as those who work less than 35 hours per week, with or without paid leave entitlements. Part-time workers include all part-time employees plus self-employed people plus employers.
- 13. In August 2016, there were 3,897,800 part-time workers in Australia. Of these:
 - 1,498,000 were employees with paid leave entitlements (38.4% of parttime workers)
 - 1,724,700 were employees without paid leave entitlements (44.2% of part-time workers)
 - 2,655,400 were women (68.1% of part time workers) and 1,241,900 were men (31.9%).
 - Female part-time workers were more likely to be employees with paid leave entitlements (45.1% of female part-time workers) than were male part time workers (24.1% of male part-time workers). That is, a greater proportion of female part-time workers than male part-time workers had paid leave entitlements.
 - Female part time workers were less likely to be employees without paid leave entitlements (39.8% of female part time workers) than were male part time workers (53.4% of male part time workers). That is, a smaller proportion of female part-time workers than male part-time workers did not have paid leave entitlements.
- 14. Despite the very moderate reduction in the proportion of the workforce working part-time recorded in August 2017, Australia has seen a major shift in its labour market in recent decades with the rise of part-time employment.

² ABS 6333.0 Characteristics of Employment, Australia, August 2016.

- 15. The Reserve Bank of Australia (**RBA**) in its Quarterly Bulletin published in September 2017³ analysed the rise in part-time employment in Australia. In the paragraphs that follow, I have extracted various parts of that report.
- 16. The part-time employment share (adopting the ABS definition described above) in Australia now accounts for nearly one-third of total employment as reproduced in the graph below.⁴ The share of casual employees in the workforce, however, has remained relatively stable since the 1990s at around 20%. This suggests the growth in part-time work over this period has been stronger in permanent part-time employment (that is, with paid leave entitlements) than it has in 'casual' part-time employment (that is, without paid leave entitlements).



³ Cassidy, N., Parsons, S. *The Rising Share of Part-time Employment,* Bulletin, September Quarter 2017, Reserve Bank of Australia.

⁴ Cassidy, N., Parsons, S. *The Rising Share of Part-time Employment,* Bulletin, September Quarter 2017, Reserve Bank of Australia at page 19.

17. Australia has one of the highest shares of part-time employment in the OECD, behind only the Netherlands and Switzerland, as reproduced in the graph below. For comparison purposes, this is defined as working less than 30 hours per week, rather than the ABS definition of less than 35 hours per week.⁵



The most common reasons for Australians working part-time are (in order of

18.

magnitude) to accommodate (1) study, (2) a preference for part-time hours and (3) caring for children.⁶

⁵ Cassidy, N., Parsons, S. *The Rising Share of Part-time Employment,* Bulletin, September Quarter 2017, Reserve Bank of Australia at pages 19 – 20.

⁶ Cassidy, N., Parsons, S. *The Rising Share of Part-time Employment,* Bulletin, September Quarter 2017, Reserve Bank of Australia at page 20.



19. This is consistent with Graph 4 below, which demonstrates that the share of part-time employment was highest for those aged under 25 years and females, with close to half of employed females in this age group working part-time. Amongst younger workers (15 – 24 years), study was cited as their main reason for working part-time.⁷



⁷ Cassidy, N., Parsons, S. *The Rising Share of Part-time Employment,* Bulletin, September Quarter 2017, Reserve Bank of Australia at page 20.

 Caring for children is cited as the dominant reason for working part-time for women aged 25 – 44 years.



Sources: HILDA Release 15.0; RBA

- 21. The RBA's report also deals with the labour demand factors that have resulted in the increased proportion of part-time employment. It is important to note that to the extent that the report suggests that part-time jobs in certain industries "can involve irregular hours" and that firms increasingly use part-time employment "to respond to cyclical fluctuations in demand for their output", the report does not distinguish between part-time employees with paid leave entitlements and parttime employees without paid leave entitlements. It instead includes all such parttime employees.
- 22. The RBA refers to research that suggests that the rise in part-time employment has brought significant benefits to individuals and the aggregate economy in the form of increased labour market participation and reduced unemployment because "this tendency [by employers] to adjust hours rather than heads may have slowed the rise in unemployment, particularly during the 2009 slowdown."⁸

⁸ Cassidy, N., Parsons, S. *The Rising Share of Part-time Employment,* Bulletin, September Quarter 2017, Reserve Bank of Australia at page 23.

23. The RBA also notes the costs to firms from employing part-time workers:

A firm will encounter the same hiring and overhead costs as employing a full-time worker, though part-time workers on average have shorter job tenures than full-time workers (driven by casual part-time employees). There may also be differences in the relative productivity of part-time and full-time workers (Abhayaratna *et al* 2008).⁹

- 24. The reference to the Abhayaratna publication is a Productivity Commission Staff Working Paper titled 'Part-time employment: the Australian experience'¹⁰ (2008 PC Paper). While the 2008 PC Paper is almost one decade old, it focusses wholly on Australia and remains relevant to questions about part-time work and about productivity costs and benefits in the workplace associated with full-time and part-time employment. The paper conceives of part-time employment in the same way as the ABS definition; it includes permanent part-time employees and casual part-time employees.
- 25. To the best of my knowledge, the detail and analysis in the 2008 PC Paper have not been contradicted by subsequent Australian sources or research papers. I consider that it remains relevant to questions about part-time work. The RBA's recent reliance upon it supports this.

⁹ Cassidy, N., Parsons, S. *The Rising Share of Part-time Employment,* Bulletin, September Quarter 2017, Reserve Bank of Australia at page 23.

¹⁰ Abhayaratna et al, *Part-time Employment: The Australian Experience*, Productivity Commission Staff Working Paper, June 2008.

26. At the time of the 2008 study, Australia had the second highest rate of part-time work among OECD countries, second only to the Netherlands (see graph reproduced below).



- 27. The 2008 PC Paper identified a number of factors contributing to the rise of parttime work in Australia (and why it might be higher than elsewhere), on both the demand (employer) and supply (employee) sides of the labour market.¹¹ They noted the importance of changing demographics, technologies, regulations (e.g. opening hours) and consumer expectations.¹² This is consistent with the findings of the RBA in 2017.
- 28. The 2008 PC Paper stated as follows regarding the costs to employers as a result of employing part-time employees: (emphasis added)

... There is little, if any, difference in hourly labour costs between part time and full time labour in general. Indeed, taking all costs into account, including those such as the fixed costs of training and staff administration, it is unclear whether part time workers are less costly to employ per hour than full time workers.

The international evidence does not support a simple cost reduction explanation for the level of part time employment in Australia. In Australia, the share of part time employment is among the highest in the OECD, and the hourly remuneration for part time workers in comparable jobs seems to be similar to that for full time workers.

¹¹ Abhayaratna et al, *Part-time Employment: The Australian Experience*, Productivity Commission Staff Working Paper, June 2008 at pages 47 to 86.

¹² Abhayaratna et al, *Part-time Employment: The Australian Experience*, Productivity Commission Staff Working Paper, June 2008 at pages 47-86.

Compare this with most other OECD countries where part time workers earn considerably less than full time workers but their share of the workforce is also lower.

...

Also, part time workers can have the same fixed costs as full time workers, (for example, recruitment and training costs and staff administrative costs) but work fewer hours to enable the employer to recover those fixed costs. They may also require more supervision than full time workers given their less intensive contact with the businesses operations.

In general, a simple cost reduction strategy does not appear to have been the major driver of the growth of part time employment over the past two decades.¹³

29. The paper also said as follows regarding productivity losses that result from the engagement of part-time employees:

However, the wage rate is not the only cost of employing labour and changing the number of hours worked per person may have implications for productivity. <u>That is,</u> changing the number of hours worked per person or the number of workers are not perfectly substitutable strategies for the employer.

...

There may also be productivity differences between full and part time workers. A reduction in working hours may increase productivity due to reduction in fatigue and boredom. Alternatively, <u>a reduction in hours may lower productivity as non-productive activities such as meal breaks, setting up and shutting down times will represent a larger proportion of the overall working day. Also, part time employees may be subject to the same cost overheads, such as staff administration and ongoing training, as full time employees but with fewer hours to spread those costs. Profit maximising employers will decide to employ part time or full time workers taking into account these and other factors and ascertaining the effect upon their relative productivity to labour costs.¹⁴</u>

The Meaning of Productivity

- 30. In making this statement, I have relied upon definitions of productivity that are commonly used by economists and statisticians.
- 31. Productivity is commonly defined as the ratio of outputs to inputs. Mathematically, any change in the volume of output that is not matched by the same rate of change in the volume of inputs (up or down) means that productivity has changed (up or down).

¹³ Abhayaratna et al, *Part-time Employment: The Australian Experience*, Productivity Commission Staff Working Paper, June 2008 at page xxi and 53.

¹⁴ Abhayaratna et al, *Part-time Employment: The Australian Experience*, Productivity Commission Staff Working Paper, June 2008 at pages 54 – 55.

- 32. Productivity is, in practice, measured by the residual or 'gap' between these two rates of change. So, for example, if the output of a company reduces, and they do not reduce their inputs of labour, capital and materials, then their measured productivity (output per unit of input) will decline. Conversely, if a company's volume of output volume stays the same but they increase their inputs of labour, capital or materials (e.g. if they invest or employ more people in preparation for a capacity expansion or a new production run), their measured productivity will decline.
- 33. Productivity measurement often faces a 'timing problem', in that inputs and outputs often change at different times. Changes in output volumes typically lag behind changes in input volumes, as it can take time for new investments (in capital or labour) to come into effect. This timing lag between a new investment and the resulting capacity increase has been well documented, for example, in Australia's recent mining investment boom. This is why productivity changes are often measured and assessed over relatively long periods of time, rather than looking at inputs and outputs at a single point in time.
- 34. For these reasons, productivity changes for individual firms and industry sectors can be notoriously difficult to identify and quantify. This is especially true of services industries where the outputs are not readily quantified and/or are subject to frequent variations in types and quality levels. See for example, recent papers on the difficulties in estimating productivity changes in Australian firms and industries.¹⁵
- 35. A Productivity Commission document titled '*Productivity Update* May 2013' defines productivity as follows:

Productivity is essentially a measure of how much output producers obtain from a unit of input, and thus is a measure of productive efficiency. Productivity increases when producers use a lower quantity of inputs to produce a unit of output, or generate a larger volume of output from a given bundle of inputs.

¹⁵ Dean Parham, 2012, *Australia's Productivity Growth Slump: Signs of Crisis, Adjustment or Both?* Productivity Commission Visiting Researcher Paper; Thai Nguyen and David Hansell 2014, *Firm Dynamics and Productivity Growth in Australian Manufacturing and Business Services*, ABS Research Paper.

In Australia, the Australian Bureau of Statistics (ABS) produces a comprehensive suite of productivity statistics. And although the concept is simple, there are different ways of measuring outputs and inputs and, hence, different ways of measuring productivity. The ABS produces annual estimates of three different productivity measures:

- labour productivity (LP) is measured as output per unit of labour input (hours worked)
- capital productivity (KP) is measured as output per unit of capital input
- multifactor productivity (MFP) is measured as output per unit of combined inputs of capital and labour.

Both LP and KP are known as partial productivity measures, as they only consider the relationship between output and a single input. In contrast, MFP is a more comprehensive measure of productive efficiency. The ABS estimates of MFP are compiled using a framework that is designed to inform how much economic growth originates from increased use of inputs (labour and capital), and how much originates from productivity improvements — increased output per unit of inputs.

... As the ABS (2012, p. 427) states: It is MFP therefore that is most commonly used in rigorous productivity analysis. Although MFP growth is sometimes interpreted as a measure of technical progress, in practice it measures much more than this. Apart from technical progress and innovation, other influences on the annual rate of MFP growth may include:

- economies of scale
- reallocation effects of capital and labour
- changes in the labour force and management practices
- variations in capacity utilisation
- climate and water availability.

Errors in the measurement of inputs and outputs, can also be important in explaining trends and developments in MFP. Recent research at the Commission and elsewhere has shed light on some of the less obvious drivers of MFP growth in Australia over the last decade or so, including some that have contributed to strongly negative MFP growth in some industries, and to a broader slowdown in aggregate productivity.¹⁶

36. At the more aggregated levels of whole industries and/or whole economies, productivity changes can be greater (or less than) the sum of productivity changes at the level of individual firms, due to the additional impact on productivity from allocation effects. That is, productivity can be improved (or reduced) by moving capital and labour between firms (or whole industries) that have stable but different productivity rates.

¹⁶ Productivity Commission May 2013, *Productivity Update* at page 3.

- 37. For example, if an economy consists of firm A and firm B and firm A is more productive than firm B (that is, it produces more outputs from the same volume of inputs), then moving resources from firm B to firm A will produce a net productivity gain for the total economy, even though there has been no productivity change within either firm A or firm B. This basic example illustrates the importance of allocation in achieving productivity gains, and the importance of maximising flexibility with regard to labour and capital within economies in order to enable those gains.
- 38. Flexibility in the allocation of resources within businesses and between businesses is therefore an important method of improving the efficiency with which resources are deployed within businesses (microeconomics) and across the whole economy (macroeconomics).
- 39. A closely related economics concept is 'allocative efficiency', which is the optimal allocation of all resources for a given set of community preferences. Achieving 'allocative efficiency' requires all resources to be distributed in a way that maximises the mix of outputs desired by the community that can be produced from its given set of inputs, at the lowest possible marginal cost.
- 40. In practice, the mix of outputs (goods and services) desired by any community is constantly evolving (due to changes in demographics, technologies, wealth, health and other factors) and so 'allocative efficiency' is not a static endpoint. It is constantly shifting and so it requires the economy to constantly shift too, in order to keep up with the volume and mix of goods and services that are in demand. Marginal production costs are also shifting constantly, in response to the same factors. This dynamic context means that a flexible economy will always be able to meet the challenges of achieving 'allocative efficiency' better than a static economy, and better than an economy in which there are more barriers to the flexible movement of labour, capital and inputs.

- 41. The ACTU's claim will have the effect of impeding the efficient allocation of labour hours in two ways.
 - It would result in the allocation of labour as dictated by the employee and restrict an employer's ability to allocate labour in the most efficient way within a firm. This will reduce allocative efficiency within a firm and potentially result in an employer's demand for labour not being met in full. The consequences of this situation and how an employer might respond to it are set out in paragraph 44 below.
 - ii. It would enable an employee to reduce their own allocation of labour (that is, the hours they are willing to work) within their current firm and in their current role, even though it might be more efficient for them (from a firmlevel and economy-wide efficiency perspective) to work those reduced hours in another firm in which the demand for labour is a better match for the supply of labour that the employee is willing to provide . This disincentive to moving to another firm that is a better match for the labour they are willing to provide will reduce allocative efficiency between firms.
- 42. In each case of these two cases, resources (i.e. labour hours) would be allocated for reasons other than optimal productivity within a firm or between firms. This means that inputs (i.e. labour hours) would not be distributed in a way that achieves maximum efficiency within a firm or between firms.
- 43. The ACTU's claim would have the effect of restricting the allocation of labour hours. Any measure that restricts flexibility in the allocation of resources, including labour, restricts the ability to achieve maximum efficiency and production across the economy.
- 44. As I noted in paragraph 41 above, the ACTU's claim could result in situations where an employee decides to allocate their labour hours in a way that does not fully meet their employer's demand for labour within the firm. In this situation, we cannot simply assume that the employer's demand for labour will be met by other employees increasing their hours of work or moving their work hours in a way that is a perfect substitute. Similarly, we cannot assume that there will be no additional costs for the employer. That is, the labour hours of one person cannot

always be fully and immediately substituted with the labour hours of another person within a firm.

- 45. There are numerous reasons why labour cannot always be fully and immediately substituted in this way:
 - i. The timing of available labour (i.e. whether the precise timing of labour hours demanded matches the timing of the supply of labour hours that is available). The ACTU's claim may have the effect of creating a demand for workhours at a time of day (or week) that does not match the work hours that are readily available from existing suitable employees. This is likely to happen even in workplaces that have large numbers of part-time and casual employees (some of whom might be underemployed) because significant proportions of part-time and casual employees have various personal commitments that preclude them from working at certain times of the day (or week). This includes study commitments, personal commitments and caring responsibilities.

I consider that this situation will be most likely to happen when the employer needs to cover a small number of hours and/or hours that are at an odd time of day. For example, if the decision of one employee to reduce their hours of work results in a 'gap' of two hours of work each Tuesday between 7am and 9am only, then this short duration and early timing is less likely to match the availability and willingness of labour from other existing suitable employees than might a longer shift later in the day.

Some firms have limited capacity to alter the timing of their demand for labour hours in order to match the availability of particular employees at particular times of the day. For example, a retailer may be required to remain open during certain hours because of the terms of their lease agreement or because of the nature of the products being sold (e.g. selling breakfast snacks at breakfast time). Such a retailer will be unable to change their hours of operation to exactly match the work hours preferences of their workers. ii. The skills of available labour. Skills vary greatly between individuals in terms of the range, type, level and combination of skills they possess. This makes it difficult to substitute labour between industries and occupations without first undertaking retraining (for example, an employee working in the fast food industry cannot substitute an employee in the manufacturing industry if they do not possess the necessary skills).

Skills mismatches also arise within firms where certain roles require a specific combination of skills or qualifications to perform the requisite work. For example, a clerical employee cannot substitute a qualified accountant or bookkeeper in the same firm, even if they have been working alongside one another for many years, without a significant degree of retraining. Conversely, an accountant or bookkeeper would be reluctant to 'fill in' for a clerical assistant even if they have the skills to do so, because the skills (and pay) required would be at a lower level than their existing role.

Such skills mismatches are exacerbated in the context of highly skilled roles, trade qualified employees and professional employees. Skills mismatches within firms are also exacerbated in smaller firms that employ few individuals in each occupation and/or level (e.g. a small firm might employ only one book-keeper, accountant or clerical assistant).

Retraining can help to resolve some types of skills mismatches within firms, but retraining requires time (and sometimes money) from both the employer and the redeployed employee. The cost of retraining (measured in time and/or money) will never be zero, so the employer and the redeployed employee will need to weigh up whether or not the investment in retraining is justified in order to fill a small and/or temporary gap in the firm's workforce. Faced with this choice, many smaller firms may decide to 'make do' with less labour. This will reduce the amount of labour employed by the firm and possibly reduce its output quantity and/or quality and/or reliability. The income earned by the firm will be reduced.

- iii. The location of available labour. The location of labour within a firm is particularly relevant in small firms and in regional areas, where the overall pool of labour that is suitable and available in the particular location (inside or outside the firm) is smaller than in larger firms or in large metropolitan centres. In some instances, information communications technologies might allow someone else within a firm (or from elsewhere) to work remotely from another location in order to fill a short or temporary gap in work hours. For roles that require the worker to be physically present, this option will not be available.
- iv. **Regulatory barriers** such as minimum engagement periods that require an employer to engage an employee for a minimum number of hours each time they are required to work, or that require minimum numbers of employees with particular qualifications or at a particular level to be employed at any one time (e.g. staffing ratios in childcare, aged care and healthcare facilities).
- 46. I consider that, because of these factors, it will be extremely difficult for many employers to substitute the hours previously worked by one employee with the labour hours of another pre-existing employee of the employer. This issue will particularly affect small businesses who have a smaller total number of employees, regional businesses and those with a very specialised and/or highly skilled workforce.
- 47. These factors also mean that pre-existing employees who are underemployed (i.e. who want to work more hours) will not necessarily be able to fill the labour hours left available by an employee who decides to reduce their hours of work pursuant to the ACTU's clause. It cannot simply be assumed that if one employee reduces their hours of work, then an underemployed employee will be suitable and available to work those hours, even if they are currently employed on a part-time or casual basis.

- 48. As a consequence of these difficulties:
 - i. A firm might decide to leave the resulting gap in hours unfilled, such that it's demand for labour is not being fully met. Controlling for all other variables, this will reduce their input (i.e. reduced labour hours) and will result in reduced outputs.
 - ii. A firm might decide to fill the resulting gap in hours with a lower-skilled person and/or at a less suitable location or time, such that it's demand for labour is being met by labour that is not a "perfect match" in terms of skill, location or timing and therefore does not reflect the firm's optimal allocation of labour. As noted above, in some situations this deficiency could be addressed with retraining, but retraining will impose additional costs on both the employer and the redeployed employee. Controlling for all other variables, an employee who is not a "perfect match" would reduce the productivity and efficiency of the firm and as a consequence, reduce the firm's output volumes and/or competitiveness and/or profitability.
 - iii. A firm might decide to fill the resulting gap in hours by hiring an additional employee who already has suitable skills and is available at the optimum time and location., However the increased headcount will result in increased overhead costs and on-costs such as recruitment and firmspecific training. If the additional employee must be hired on a casual basis in order to fill the hours gap, then additional labour costs might be payable (e.g. casual loadings). If the labour market is tight and there is not a large supply of suitable labour, then a higher wage offer might be required to attract a suitable person. These costs to the firm would be additional, as a direct result of this claim.

Productivity in the Australian Economy

49. Productivity improvement remains the 'weak link' in the Australian economy. Turning this around is necessary to supporting real improvements in incomes across the board. In Q2 2017, GDP per hour worked (a rough proxy for productivity) fell by 0.3% q/q and non-farm unit labour costs rose by 1.4% q/q, signalling no improvement in productivity at an aggregate level.¹⁷ This comes after a long period of negative or flat productivity performance over the current economic cycle, dating back to the last national recession in 1991.

- 50. This failure to generate meaningful or sustainable productivity improvement over a very long period is contributing to persistent weakness in real incomes growth for both employees (wages) and businesses (profitability).
- 51. Although it is difficult to measure and quantify, I consider the likely impact of the ACTU's claim on national productivity to be negative because it would impede our collective ability to allocate resources (in this case labour) to their most productive and efficient use within firms or between firms. This would have the effect of reducing the productivity and efficiency with which labour is utilised across the national economy. The difficulties associated with quantifying the precise reduction in productivity and efficiency as a result of this claim does not mean that the reduction would be negligible. It simply means it would be exceedingly difficult to isolate the effects of this individual claim from all other contributing factors or variables that are occurring concurrently, and it would be difficult to quantify exactly how this individual claim would interact with all other contributing factors or variables that are occurring concurrently.

Response to the ACTU's Evidence

52. I have read and considered the economic data relied on by ACTU witness statements of Professor Siobhan Austen and Dr Ian Watson. I provide some comments in response below.

Statement of Professor Siobhan Austen

53. On pages 17 - 18 of Professor Austen's statement, the study by Venn and Wakefield based on HILDA data demonstrates that women can and do transition from full-time to part-time work and that *"the majority of mothers who moved from full-time to part-time work reported increased satisfaction with their work hours"*. Professor Austen says this suggests *"the value of family friendly work hours"*.

¹⁷ ABS Australian National Accounts, June 2017.

- 54. In my view, the study by Venn and Wakefield also suggests there are currently few barriers to making such a move. This is consistent with 2008 PC Paper, in which it was found there was a relatively high degree of mobility between part-time and full-time work in Australia, as of 2008 (and based on earlier ABS and HILDA data).
- 55. On pages 41 43, Professor Austen notes that shorter work hours for women after childbirth contribute to their 'lifetime earnings gap'. In my view, it isn't clear how any moves to further reduce work hours for women with children (temporarily or permanently) could help to address this gap.

Dr Ian Watson

- 56. In paragraphs [4], [63] and [64] of his statement, Dr Watson says "*casualisation and other forms of labour market insecurity have become entrenched*". This is not strictly correct because the proportion of the workforce who are employed on a casual basis has not changed since at least 2001. The Table 1.6 on page 25 of Dr Watsons's statement confirms no increase in the proportions of employees working casual since at least 2001. It also shows no increase in the proportion of employees who are on fixed term contracts since at least 2001.
- 57. ABS labour force data confirm no increase in the rate of casual work in Australia in this century. As of May 2017 (latest ABS data available), 20.8% of the total workforce are employed on a casual basis, almost the same as in Nov 2007 (20.9%) and Aug 1998 (20.1%). These earlier data were "fact-checked" and confirmed by Professor Mark Wooden and Professor Sue Richardson for online news site *The Conversation* in 2016. A copy of this article is attached and marked to my statement **Attachment B.**





Sources: ABS 6291.013, to Aug 2017; ABS 6359.0, Forms of Employment, Australia, November 2013.



Julie Toth

Date: 26 October 2017.