6. Job Security

[6.1] The point made repeatedly by ACCI in past submissions is that whatever minimal improvements in living standards may arise from the Safety Net decisions come at the expense of greater job insecurity for the employed and add to the difficulty of those without jobs finding work. There is an off-stated concern about the problems that some workers face with a marginal attachment to the labour force, which amounts to saying that their jobs are not as secure as they would want.

[6.2] The issue as we have tried to explain it over the years is not simply between wage earners at one wage level as against wage earners at another higher wage level. The ACTU presents its claim as if there were no employment implications that had to be considered but that in granting increases as high as 6.0% on the minimum wage would leave the labour market, for all intents and purposes, untouched.

[6.3] This is an assumption that cannot stand up. No matter how one looks at the effects of higher labour costs on employment, one comes to the same conclusion. Raising the cost of labour will, other things being equal, lead to the creation of fewer jobs. There are always other things, which is why the labour market in most circumstances continues to grow even as real wages continue to grow. And these other things are, generally speaking, those changes to the economy which contribute to productivity, such as technological change and investment in capital. It is productivity growth that allows the labour market to expand even while real wages increase. Indeed, it is in actual fact the reverse process that occurs in that rising productivity allows real wages to increase without there being a loss of jobs.

[6.4] The serious concerns with the processes of the Safety Net is that wages are moved upwards without either a process in place that ensures that labour productivity has risen nor are there any negotiations which consider the types of workplace change that would allow real wages to grow without putting jobs at risk. The economy does tend to become more productive at the rate of around 2% a year, but not every business increases its productivity at the average rate. And because for employees paid according to the award there are no systematic improvements in productivity associated with a bargaining process, it is probable that productivity growth is lower in firms that largely employ those on minimum award rates.

[6.5] The result is that employees paid the Safety Net are less likely to find that their wage increases have been financed by an improvement in productivity so that their continued employment remains more precarious. This is the conclusion that was drawn from the results of our survey of the effects of last year's safety net decision. In firms where there were few employees paid according to the Safety Net, there was almost no effect on the level of employment. In contrast, in firms that had paid increases as a direct result of the Safety Net decision, a large proportion had indicated that they had employed fewer persons as a result.

[6.6] This cannot be a surprising result. This is what casual empiricism would lead one to conclude. Asking the proverbial man or woman on the omnibus what would happen to employment if labour costs went up, would lead to most responding that the number of jobs would go down.

[6.7] Economic theory is also very clear on this. Supply and demand analysis would drive one to the identical conclusion. Pushing up wages would lead to a lesser demand for employees.

[6.8] In its TRYM model analysis, the Commonwealth uses an econometric model of the economy to demonstrate that increases of the order of magnitude sought by the ACTU will lead to the creation of fewer jobs than would otherwise have been the case. There are no doubt many flaws and idiosyncrasies in this model but as it follows a standard macroeconomic framework in its design, there is nothing particularly problematic in the conclusion reached. Indeed, it would be extremely unlikely that any serious econometric model of the economy would reach any other conclusion. A rise in wages paid unsupported by a more productive economy would lead to a fall in the rate of growth in employment.

[6.9] This has always been the crux of the issue. Where is the proper tradeoff between higher wages and a slower rate of growth in employment. No matter how one approaches the issues of this case, it comes back to where one wishes to draw the line. Either one chooses faster employment growth and grants a lower rate of wage increase. Or one chooses a less rapid rate of employment growth by granting a higher rate of wage increase.

Security and Wages

[6.10] This process of constantly raising minimum award wages makes jobs less secure. Employment expands where businesses can afford to undertake expansion plans they are perennially contemplating. There is no shortage of ideas amongst businesses about what they would like to do (or need to do) next. What there is a shortage of are funds to spend on such plans.

[6.11] As costs go up, certain plans that might have been put into practice are instead put on hold and the employees who would have been hired to undertake the work never get taken on. Similarly, as costs go up some employees who currently have jobs become too expensive relative to the revenues of the firm and are either not replaced when they leave or are made redundant or offered part-time work in place of full-time. Alternative forms of engagement are preferred such as the use of contractors, labour hire and outsourcing.

[6.12] Most employees, therefore, are secure in their jobs most of the time. Some employees, however, are not. And the line between security and insecurity keeps shifting and is in large part dependent on the cost of labour in the context of the overall state of the economy.

[6.13] Employees want security. They also obviously want high incomes but they also want secure jobs. This is hardly a surprising conclusion, but it is one that needs to be carefully appreciated in making a decision in this case. Because to the extent that granting across the board wage rises increases the insecurity of employment, it is to that extent that granting increases makes employees worse off even if they, for a time, have more money in their pockets.

[6.14] The Melbourne Institute of Economic and Social Research conducted an analysis on the importance of job security which was published in its *Australian Social Monitor* for September 1998 [Tag 3]. Written by Jonathan Kelley, M.D.R. Evans and Peter Dawkins and titled "Job Security in the 1990s: How Much is Job Security Worth to Employees?", it provides an estimate of the tradeoff between the value of personal job security and higher wages to employees.

[6.15] The authors of the paper sought to test the importance of job security within the context of income received. On page 4, under the heading "Effect on Satisfaction with Pay", they put the issue being tested within the following framework:

> "Does job security matter? The simplest neo-classical model holds that workers seek only to maximise the size of their income. In this view, workers are always keeping an eye out for other jobs that offer better pay in the long-term, so they aren't very concerned with job security.
>
> "But workers may be risk-averse. Like investors who prefer secure 'blue-chip' bonds to better paying but more risky investments in stocks, some workers may value the security of their income. Such risk averse workers would prefer a single job that pays a modest but secure wage to a varied series of different jobs, even if that series pays better on average.
>
> "Or workers may take a wider perspective on what they want from their jobs. In the extreme, a traditional communitarian model suggests that workers are happier and contribute more when they feel secure and integrated into the companies in which they work.
>
> "To assess these possibilities, we estimate the impact of job security on worker's satisfaction with their income. We measure satisfaction by three questions from a standard battery on life and job satisfaction:
>
>> "***[How do you feel about ... 1 Your standard of living – the things you have, like housing, washer, clothes, stereo, car and so on?*** *Delighted / very pleased / pleased /mostly satisfied / mixed feelings / mostly dissatisfied / unhappy / terrible*
>>
>> ***"Your income and financial situation?*** *[answers as above]*
>>
>> ***"[Now about your job, are you ... 1 Satisfied with your pay?*** *[answers as above]"*

[6.16] And what they found was that security was an extremely important factor in determining the level of satisfaction. According to the analysis,

only job security and income mattered greatly and surprisingly, security was almost as important as pay itself.

> "But strikingly, satisfaction with pay and standard of living is also strongly influenced by job security. Security's impact is fully two-thirds as large as pay's, as shown by security's standardised effect of .18 compared to pay's .27 in the multiple regression analysis. Note that this is a separate effect, with the 'noise' of other partially overlapping effects (such as pay and other job characteristics) that might distort it filtered out by the regression analysis. **Thus, job security is a very important factor in determining workers' satisfaction with their financial situation: having a secure income is fully two-thirds as important as having a large one**." (page 4-5 - bolding added)

[6.17] They noted just how uniquely important job security was as a factor in providing satisfaction with a particular job:

"Of the many other aspects of work and background in the model, nothing else has any substantial impact on satisfaction with pay." (page 5)

[6.18] Of particular importance within the context of the Safety Net was how important security was towards the bottom of the pay scale. The lower one's pay, the more important security became. As stated in the article:

> "*Job security has a high value to workers, **especially low paid workers**: for them, security is equivalent to a very substantial part of their pay." (page 5 – bolding added)*

[6.19] They go on to provide a quantification of the actual value of increased security to those on the bottom of the pay scale. They write:

> "Another important issue in considering ideal blends of security and income in compensation packages is that **job security matters most to the income satisfaction of workers at the bottom of the hierarchy**. The impact of job security on income satisfaction decreases as salaries

increase. For a worker on $10 per hour, the difference between a secure and a not too secure job is equivalent to a raise of $4.44 per hour." (page 6 – bolding added)

[6.20] The paper provides a table (page 5) showing the different levels of pay that would be needed to compensate an employee at different income levels for loss of security.

Trade-offs between pay and security[8]:

each row gives alternative compensation packages mixing pay and security to produce the same level of satisfaction

High Security	**Average Security**	**Low Security**	**Percentage Increase Required to Compensate between Low an High Security**
$10.00	$12.07	$14.44	44.4%
$20.00	$22.28	$24.93	24.7%
$30.00	$32.66	$35.66	18.9%
$40.00	$43.02	$46.48	16.2%
$50.00	$53.58	$57.70	15.4%
$60.00	$64.08	$69.17	15.3%

[6.21] For example, the first row shows that an employee receiving an income of $10 per hour in an enterprise offering high security would require an increase to $12.07 in an enterprise offering medium security to end up with the same level of overall satisfaction. The next column then shows that that same employee on $10 per hour in an enterprise offering high security would need to pay $14.44 per hour to return the employee to

[8] Source:IAESR

the same level of overall satisfaction if employed in an enterprise offering low security. The final column shows the percentage increase in income required to compensate an employee in a low security enterprise relative to the hourly pay needed in an enterprise offering high security and still maintain the same level of overall satisfaction.

[6.22] The data show that wage earners at all income levels required an increase in the hourly wage to move from an enterprise offering high security of employment to one where there was less security, but that the largest loss of workplace satisfaction occurred amongst employees at the lowest income levels. The analysis provides a quantitative estimate of the effect that a fall in security has on individual employees and shows that for those at the bottom of the pay scale, there is an extremely large fall in well being that accompanies a loss of job security.

[6.23] Yet this is what Safety Net wage increases do. The Safety Net reduces job security across the economy, but because it places the largest increases on those at the bottom of the pay scale, it reduces the level of security precisely where it is most keenly felt. It is all very well for the ACTU to seek on behalf of its members an increase in wages, but the question remains whether those who receive the increases are indeed better off for it if their jobs become less certain.

[6.24] And of course what that table does not address is that loss of well being where an employee loses a job altogether. Individuals become unemployed because of these Safety Net increases. There is a wholesale loss of welfare because jobs are not as secure as they previously were.

[6.25] The authors of the paper assume that the fall in security that has occurred is due to globalisation and the changes in the world economy. The

more likely cause of this fall in security here in Australia has been undoubtedly due to the Reserve Bank's inflation targeting approach which has made many jobs less secure. But our analysis is that an aspect of the fall in security is also related to the introduction of the Safety Net which has continuously raised the cost of employment in a global fashion across all award rates (and as we submit, more broadly into overaward sector).

[6.26] But irrespective of what may have caused jobs to become less secure, the important point raised by these figures is that wage increases that lower job security do no one any favour. Granting the ACTU's claim of $25 would make jobs, particularly at the lower end of the pay scale, far less secure than they now are. The analysis conducted by the Melbourne Institute makes it plain that to the extent that raising wages reduces security, it will reduce the level of employee well being. The ACTU runs major risks on behalf of those on the lower level of pay since it makes it more likely that they will end up jobless as an end product of such Safety Net decisions, and even where jobs are retained, there are the additional concerns that many individuals will continue to have over whether they will keep their jobs in the less secure environment that the ACTU is helping to create. These results must be a crucial consideration in reaching a decision in this case.