

**FAIR WORK COMMISSION**

Matter No: AM2014/197 Casual employment

Re Applicant: "Automotive, Food, Metals, Engineering, Printing and Kindred Industries Union" known as the Australian Manufacturing Workers' Union

**EXPERT EVIDENCE OF DR TOM SKLADZIEN**

**The economic impacts of the AMWU casual conversion claim.**

I, Dr Tom Skladzien, National Economic and Industry Adviser of the Australian Manufacturing Workers' Union (AMWU) of 133 Parramatta Road, Granville, 2142, NSW, affirm and make the following statement:

**Background**

1. I have previously provided an expert evidence statement 10 October 2015. I have been shown the witness statements of Ms Julie Toth and Mr Mark Goodsell.
2. I make this further statement in response to some of the matters in Ms Toth and Mr Goodsell's statements, which are referenced below.

**Introduction**

**3. Julie Toth's Statement extract:**

"38. Regarding Professor Markey's statement regarding "evidence that numerical flexibility necessarily delivers gains in productivity is scant"<sup>4</sup> this analysis appears to look only at the firm level. Statistically significant evidence at the firm level might indeed be scant, but there are concrete economy-wide benefits from labour flexibility improvements that are not necessarily captured in quantifiable measures of productivity at the firm level.

39. As noted above, the IMF found that 'numerical flexibility' across the economy (in the form of fewer restrictions on entry and exit from employment) contributes to lower unemployment rates including lower youth unemployment rates. Lower unemployment does not show up as a 'productivity improvement' unless the increase in employment results in a disproportionately larger increase in output, economy-wide. Lower unemployment is, nevertheless, widely recognised as a worthy policy goal that is worth pursuing in its own right.

40. There is a 'productivity' benefit to the wider economy that arises from improved 'numerical flexibility' in the labour market. This benefit is mainly achieved through improving the allocative efficiency of labour across the economy. Where lower unemployment and more flexible employment results in improved allocative efficiency

<b>Lodged by:</b> Sally Taylor AMWU National Research Centre	Telephone: +61 2 8868 1500
<b>Address for Service:</b> Level 3, 133 Parramatta Rd, Granville NSW 2142	Fax: +61 2 9897 9275 Email: sally.taylor@amwu.asn.au

## Statement of Dr Tom Skladzien

across the economy, there will be a measurable improvement in national productivity, but not necessarily an improvement in each individual firm. This benefit occurs at the macro level. It is difficult to observe at the micro level of an individual firm or for individual sectors or industries. It typically occurs concurrently with other reforms and/or economic trends.

41. This lack of observable effect at the level of an individual firm is not contradictory to the findings of the IMF team that indicate that among the labour flexibilities they examined, “hiring and firing regulations and hiring costs are found to have the strongest effect. Overall the results of the paper suggest that policies that enhance labor market flexibility should reduce unemployment. ... employment protection should be designed to ... not inhibit job creation and labor reallocation.””

4. Paragraph 38 to 41 (presented above) of Julie Toth’s statement claims the lack of evidence for numerical flexibility’s positive impact on productivity is a function of firm/business level analysis. This is not the case.
5. In his statement, Professor Markey provides examples of cross country macroeconomic studies that fail to find evidence of this link, for example Storm and Naastepad (2009). Other cross country macroeconomic studies exist that have concluded numerical flexibility does not help and may even inhibit productivity, for example, Vergeer and Kleinknecht (2014)<sup>1</sup> which was not cited by Professor Markey. In addition, it has been shown that studies which do show a positive relationship between numerical flexibility and productivity or low unemployment are sensitive to specification decisions of the authors and can lack robustness. For example, see Vergeer and Kleinknecht (2012).<sup>2</sup>
6. I would draw the attention of the Commission to Kleinknecht (2015)<sup>3</sup>, which provides a compelling analysis of how excessive labour market de-regulation and numerical flexibility can harm innovation and labour productivity growth.
7. In theory, there are compelling reasons to believe that ‘excessive’ labour market regulation could in certain circumstances inhibit employment and productivity growth, but the question of what constitutes ‘excessive’ regulation is often left unanswered or in fact defined by regulation that does have significant impacts on productivity and employment. In my view, the claim of the AMWU does not come anywhere near the level of regulation that would qualify as ‘excessive’ in the real world. It does not place significant obstacles on the use of casual labour and focuses on deeming employees permanent that for all other intents and purposes already act as permanent employees.
8. In addition, for reasons of modelling complexity, the same theoretical approaches that support sweeping claims about productivity and employment effects of labour market regulation cannot and do not seek to include potential productivity boosting aspects of labour market regulation, such as greater investment in worker skills, greater cooperation between workers and management, and

---

<sup>1</sup> Do labour market reforms reduce labour productivity growth? A panel data analysis of 20 OECD countries (1960–2004), R Vergeer, A Kleinknecht, (2014). International Labour Review 153 (3), 365-393.

<sup>2</sup> “Do flexible labor markets indeed reduce unemployment? A robustness check” R Vergeer, A Kleinknecht Review of Social Economy 70 (4), 451-467. (2012).

<sup>3</sup> Available at: <https://www.socialeurope.eu/wp-content/uploads/2015/07/RE6-Kleinknecht.pdf>

## Statement of Dr Tom Skladzien

greater trust in the workplace. As a result, the discussion around the flexibility effects of labour markets has been skewed as has the majority of standard empirical analysis. And this is before we consider macroeconomic impacts of higher wages and greater certainty for workers on aggregate (and firm level) productivity, economic growth and employment.<sup>4</sup>

9. Indeed, the studies cited above point to the fact that even (by our standards) stringent European labour market regulations should not count as 'excessive' in the standard definition, as increasingly evidence points to these regulations boosting productivity rather than diminishing it. A claim that merely seeks to have firms legally recognise the permanent nature of some employees (those working as permanent casuals for 6 months or more) will not impact on a firm's ability to hire casuals in any broader sense, nor to fire casuals. It merely seeks to award the protections and certainty that these workers, being effectively permanent employees, should be afforded given the reality of their working experience.
10. In addition, and as is made clear by any thorough reading of the relevant literature, any 'flexibility' benefits for firms need to be weighed against the benefits of greater investment in workers skills, training, and better workplace relations, including through hard to measure things like trust, loyalty, and engagement. While these benefits may be difficult to measure, or even account for in theoretical models of the labour market, they should not be ignored.
11. As well as denying probable positive impacts on firm (and therefore economy) efficiency through improved worker training, trust, cooperation etc, the contention by Julie Toth that the AMWU claim will have significant or measurable impacts on allocative efficiency in the economy, significant enough to influence broader productivity or employment trends, is out of proportion to the actual proposed changes advocated for by the AMWU. In their recent review of the entire Industrial Relations (IR) system, the Productivity Commission (PC) acknowledged that IR reforms, even extremely deep, broad and significant reforms, were unlikely to have measurable macroeconomic effects. When discussing the impacts of broad, sweeping IR reforms, the PC noted:

*"it is improbable that the economywide productivity impacts will be large enough to be meaningfully enumerated against the background of all the other factors that drive productivity"*

And

*"the gains may not be large enough to be visible at the macroeconomic level"*<sup>5</sup>

12. If the PC does not think sweeping IR reforms will have measurable macroeconomic impacts, a view I share, it is not surprising I do not anticipate such impacts from the claim of the AMWU.

---

<sup>4</sup> For example, see the literature on wage led growth. A summary available at: [http://www.ilo.org/wcmsp5/groups/public/---ed\\_protect/---protrav/---travail/documents/publication/wcms\\_192507.pdf](http://www.ilo.org/wcmsp5/groups/public/---ed_protect/---protrav/---travail/documents/publication/wcms_192507.pdf)

<sup>5</sup> Workplace Relations Framework, Productivity Commission Inquiry Report, Volume 2, November, 2015. Page 901 and 903. Available at: <http://www.pc.gov.au/inquiries/completed/workplace-relations/report/workplace-relations-volume2.pdf>

**13. Julie Toth's statement extract:**

“46. Professor Markey's assertion regarding the lack of training associated with casual employment appears to refer to workplace training only, not to all forms of training. It also appears to refer only to training that is provided and paid for by employers, not to all forms of training. It is not known whether casual workers have a lower access or exposure to all forms of training (inside and outside the workplace) than do permanent workers.

47. Statistically, casual employees typically have lower formal education levels than full-time permanent employees. (see for example Barbara Broadway and Roger Wilkins, Low-paid women's workforce participation decisions and pay equity, Melbourne Institute of Applied Economic and Social Research, December 2015. A report for the Pay Equity Unit of the Fair Work Commission). This is at least partly due to their demographic characteristics. Casual workers are typically younger than permanent full-time employees and are more likely to be undertaking training outside the workplace (e.g. enrolled in tertiary studies while working part-time).

48. Similarly, the assertion that casual employment may also impact negatively on productivity and firm performance through reduced opportunity for on-the-job training appears to refer to workplace training only, not to all forms of training. It also appears to refer only to training that is provided and paid for by employers, not to all forms of training that casual employees may receive. It is not known whether casual workers have a lower access or exposure to all forms of training (inside and outside the workplace) than do permanent workers.”

14. The lower levels of education exhibited by casual employees is no doubt the result of a combination of; lower on the job training (a fact broadly acknowledged, even in Julie Toth's statement), lower levels of educational attainment prior to employment (as flagged in Julie Toth's statement) and a difficulty in accessing education while employed as a casual (discussed below). To dismiss a casual's lower education and training as not being solely the result of lower on the job training, as Julie Toth does, misses the broader point that casual employment is neither conducive to on the job training (as has been well documented and as seems to be acknowledged by Julie Toth) or off the job education. Both of these facts have serious and negative implications for both the workers affected and the broader economy and should not be ignored.

15. While it is true that for some casuals, casual employment works as a supplement to off the job study, this is much more likely to be the case for young workers in sectors such as hospitality and retail,<sup>6</sup> not older workers in sectors such as manufacturing. The distinction between the case of casual employment to support study and casual employment as a primary goal in itself should be, but is rarely, made. A worker supporting themselves (and possibly a family) through casual employment faces a very different circumstance to a student supplementing study with casual

---

<sup>6</sup> For example, this is noted by universities when advising students on job opportunities to support study (see: [http://careers.unimelb.edu.au/student/find\\_a\\_job/part\\_time\\_and\\_casual\\_work](http://careers.unimelb.edu.au/student/find_a_job/part_time_and_casual_work) and <https://www.monash.edu/students/career-connect/find-a-job/casual-part-time-work.html>)

## Statement of Dr Tom Skladzien

employment. In the former case, the worker would likely accept barriers to study that stem from casual employment, even if those barriers effectively make study impossible, as study is not their primary goal. In the latter case, such barriers would result in the worker seeking alternative casual (or other) employment; as such barriers would directly conflict with their primary goal of study. The existence of the latter (work to study) case should not be used to deny the existence of the former (would like to study but barriers prevent it) case.

16. For most workers in manufacturing industries, the nature of casual employment does inhibit employees from being able to engage with VET, University or other training due to uncertainty about work hours (a casual employee is not in a position to be sure they can comply with a given class schedule for example) and an inability of accessing leave to participate in training when necessary. They are typically engaged in casual employment not to support study, but to support existence and that of their families, and as such are in the former case outlined above.

17. The barriers faced by casual workers to improved skills, both at work and more broadly, have been well documented and are not difficult to understand. For example, Pocock (2009) states (highlight added):

“Characteristics associated with low-paid jobs are little or no reward for training and skill, truncated career and pay structures, job insecurity, erratic or excessive time demands, unsocial hours, the absence of well-developed on-the-job training, a lack of recognition of prior learning, multiple jobs, a lack of employer investment in training and/or job demands that preclude easy participation in training. **These issues are compounded for casual workers.**”<sup>7</sup>

18. This has an effect on the skills base of casual staff and as a result their lifetime earnings and productivity potential. In turn, these have significant long term national economic impacts.

### 19. Julie Toth’s statement extract:

“57. Why has casual employment in manufacturing increased? Detailed data on type of employment are not published by the ABS at a sub-industry level. That is, the proportion of casual workers is published for manufacturing as a whole, but it is not published for individual manufacturing subsectors.

58. We know from observation and anecdotal sources however, that casual work has long been more common in some manufacturing subsectors than in others: it is more common in food, beverages, wood and building products. It is less common in chemicals, machinery, equipment and metals.

59. Some of the subsectors with higher casual worker rates have been stable or growing, while some of the subsectors with lower casual worker rates have been shrinking over the

---

<sup>7</sup> Low-paid workers, changing patterns of work and life, and participation in vocational education and training: A discussion starter. B, Pocock. CENTRE FOR WORK + LIFE, UNIVERSITY OF SOUTH AUSTRALIA, (2009). Page 7. Available at:

[https://www.melbourneinstitute.com/downloads/hilda/Bibliography/Other\\_Publications/pre2010/Pocock\\_LowPaidWorkers.pdf](https://www.melbourneinstitute.com/downloads/hilda/Bibliography/Other_Publications/pre2010/Pocock_LowPaidWorkers.pdf)

## Statement of Dr Tom Skladzien

past decade. In particular, employment in food manufacturing has grown from 178,900 in 2005 (17.5% of all manufacturing employment in 2005) to 197,200 (22.2% of all manufacturing employment in 2015). Over the same period, transport equipment manufacturing lost 26,500 workers while fabricated metals and primary metals together lost 27,300 workers. These structural changes across subsectors help to explain much of the growth in the proportion of casual workers in manufacturing as a whole.

60. I do not agree, as asserted by Dr Skladzien that the increase in the proportion of the manufacturing workforce that is casual has contributed to skill shortages or to poor productivity performance in manufacturing.

61. In my view the performance problems in manufacturing (e.g. skill deficiencies and poor productivity performance) have occurred for other reasons that are not related to the employment of casuals.

62. With regard to skill shortages, I have observed over many years that sectors that are perceived by the public to be in decline, such as automotive manufacturing or metals manufacturing, often find it exceedingly difficult to attract skilled workers – and especially young skilled workers - because they must compete with more glamorous and high profile industries and occupations for the best labour.

63. Somewhat paradoxically, even as these industries have reduced their workforces, they have experience shortages of particular skills and occupations. The process of labour reduction seems to make these occupations inherently less attractive to new entrants. In these cases, I believe that any increased reliance on casual labour that has been observed in these industries is part of their response to skill shortage problems, not the cause of it.

64. With regard to productivity performance, many of the factors affecting manufacturing industry productivity performance over the past decade are very specific to particular sub-sectors and production processes and are in no way related to any observed increases in casual labour. They include, for example:

- Rapid changes in technology utilised in manufacturing globally;
- Rapid changes in the structure and location of global manufacturing supply chains, with more production shifting to the Asian region instead of Europe, USA or Australia.
- Falls in output across a number of sub-sectors, with a lag in the reduction of inputs (that is, production volumes fall first as demand for Australian-made production falls, followed later by cuts to labour, capital and resources, such that labour and capital can be left underutilised until it is reallocated to another use);
- Rising import competition met by a rising reliance on imported inputs and components;
- The rapid growth of baked goods in food manufacturing, which is more labour-intensive and lacks the economies of scale of many other food manufacturing segments;
- Changes in the value-added quality composition of food, beverages and other outputs;

## Statement of Dr Tom Skladzien

- High levels of capital investment and new technology adoption in the chemicals sector and particularly in paints, pharmaceuticals, cosmetics, health products and other growth niches;
- High levels of capital investment in the transport equipment manufacturing sector and in metals, even as (or in some cases, because) output volumes were declining.”

20. The impact of increased levels of casualization on worker skills and as a result manufacturing performance should not be dismissed out of hand. The general tendency for casuals to lack access to on the job and off the job training is discussed above and well documented<sup>8</sup>. Given this, a claim that this lack of access to training has no impact on productivity cannot be supported without significant and rigorous evidence, which is not presented by Julie Toth in her statement.

21. While it is true that there are many factors which impact the performance of manufacturing, there is also no doubt that workforce skills play a significant role. Indeed, the AiG themselves have in the past emphasised the role of (on site training to improve) workforce skills as well as worker participation in job design, as a driver of good business outcomes including competitiveness and productivity. For example, their 2012 document on high performance workplaces states (highlight added):

*“High performance organisations are focused on maximising the potential of their workforce and utilising this potential for mutual benefit and competitive advantage. They do this by recruiting competent workers, **involving them in extensive training** and creating or re-designing jobs which will provide them with challenge, responsibility and control”<sup>9</sup>*

22. Given the evidence on the relative lack of casual training and the importance of worker training for firm performance (as has been admitted by the AiG in the cited report as well as in many other instances), it is impossible to simply dismiss the impact of casualization on workforce skills and as a result, firm performance.

23. In addition, I have had numerous opportunities to discuss workplace productivity issues with workers at numerous work sites and businesses. In all instances when raised, discussions on the role of casuals at any particular worksite have centred around casual’s lack of skills, management’s inability or refusal to invest in training of casuals and the flow on impacts on both productivity and workplace safety. The most common view I’ve encountered from permanent employees is that casuals hurt productivity due to a lack of skills (in operating machinery for example) while for the same reasons they increase the risk of injury to themselves and other workers. Common sense

---

<sup>8</sup> For an additional and comprehensive discussion, see:

[https://www.melbourneinstitute.com/downloads/hilda/Bibliography/Other\\_Publications/2013/Buddelmeyer\\_etal\\_Training\\_and\\_its\\_impact\\_on\\_casual\\_employment.pdf](https://www.melbourneinstitute.com/downloads/hilda/Bibliography/Other_Publications/2013/Buddelmeyer_etal_Training_and_its_impact_on_casual_employment.pdf)

<sup>9</sup> High Performance Organisations: maximising workforce potential. Australian Industry Group, (2012).

Available at:

[http://www.aigroup.com.au/portal/binary/com.epicentric.contentmanagement.servlet.ContentDeliveryServlet/LIVE\\_CONTENT/Publications/Reports/2012/11285\\_changes\\_11039\\_high\\_performance\\_organisations\\_maximising\\_workforce\\_potential\\_web.pdf](http://www.aigroup.com.au/portal/binary/com.epicentric.contentmanagement.servlet.ContentDeliveryServlet/LIVE_CONTENT/Publications/Reports/2012/11285_changes_11039_high_performance_organisations_maximising_workforce_potential_web.pdf)

## Statement of Dr Tom Skladzien

would seem to support the permanent employees' views that both are primarily the result of a lack of training.

### 24. Mark Goodsell's statement extract:

"12. The AMWU's claim suggests that a casual employee working regularly for 6 months will have permanent work available for them. Just calling an employee permanent does not mean the work is there on an ongoing basis. An employment contract does not define the economic circumstances a business is in.

13. Specifically I have observed that many manufacturers have difficulty forecasting workload beyond the very short term - even for periods less than a month. Manufacturers may be busy but this may be work that comes in at short notice. More typically they find that the month to month or quarter to quarter flow of work is inconsistent and unpredictable.

14. For manufacturers in seasonal businesses, I have observed that the relevant season, or spike in workload can extend well beyond 6 months.

15. For this reason, flexibility for manufacturers is not just about cost or cost savings. It is about genuine business uncertainty that is higher than it has ever been in the past. Flexibility is also a market imperative in non-commodity markets, where innovation is important and product life cycles are shorter than in the past.

...

19. Flexibility provided through casual employment can help manufacturers get the mix right for long term sustainability.

20. Permanent employment is generally a fixed cost. Casual employment allows this to be more like a variable cost at the margin.

21. Manufacturers make decisions on their capacity and output carefully as it involves decisions about significant capital and the use of largely skilled and semi-skilled labour.

...

27. Dr Skladzien's analysis seems to assume that there are no employment effects of deeming casuals permanent employees. That is, there appears to be no comment on the AMWU's claim in its effect on the propensity and ability of manufacturing employers to employ people. It assumes that the industry is over time a closed system made up by those only currently employed.

28. Reduced flexibility for manufacturers, such as the AMWU claim for deeming provisions, will result in reduced employment in the industry."

25. A crucial question that lies at the heart of Mark Goodsell's statement is the issue of what constitutes 'short term' fluctuations in labour demand that should be legitimately met through the use of casuals and what constitutes medium or longer term fluctuations that shouldn't be met through the



## Statement of Dr Tom Skladzien

use of casuals. In my experience in discussing specific firms' future plans and projections, which is not an uncommon occurrence, I have never met with a business that could not provide at least one year of projections of future work (revenue as well as costs). While this does not mean these projections have always been met, it does provide a clear indication that businesses do plan significantly longer than 6 months into the future, which should not be a surprise.

26. At the same time, the economy, and even specific sectors of the economy, do exhibit cyclical behaviour (with uncertain and varying periods). These cycles can last for many years and can be of varying magnitudes. Crucially, at any given time, we cannot be sure whether a change in demand faced by a given business represents a short term fluctuation, a medium term sectoral cycle or a longer term whole of economy cycle. However, this ex-ante uncertainty does not imply that fluctuations in labour demand should be treated as short term and be addressed with casual labour even as they persist.
27. With respect to the changes being proposed by the AMWU, my assessment is that these will not inhibit the use of casuals for management of short term fluctuations in business demand for labour, and as such will have minimal impacts on actual labour market and business flexibility. Employers will still be able to utilise casual labour to meet genuine unexpected short term fluctuations (based on a 6 month definition of 'short term' which is reasonable). In addition, the AMWU claim allows for the employer and employee to reach agreement to extend the 6 month period to 12 months, which provides the employer with added flexibility in managing the response to fluctuations in labour demand that are of greater duration than 6 months.
28. Any acceptance of employing casuals to manage medium and long term demand fluctuations poses significant risks and would represent a significant deviation from history. Such an acceptance would mean practically all manufacturing workers could be legitimately placed on casual contracts, given the uncertainty of a future recession or industry downturn. Any change in demand, no matter how long it persisted, could be claimed as a 'fluctuation' that required more casual rather than permanent labour. In addition, academic research which concludes business cycles have a permanent effect on real and potential output could be used to support the notion that every change in labour demand was effectively the result of a business cycle and should be managed by converting to a greater reliance on casual employees.
29. Mark Goodsell's statement (paragraph 27) states that in my statement, I ignored the employment effects of deeming casuals permanent. Any employment effects would result from additional costs of deeming casuals at the firm level; an issue that was addressed at length in my original statement at paragraphs 21 to 26.
30. Rather than repeating those statements, I will simply note that I do not anticipate significant employment effects because:
  - The claim would only deem 'permanent casuals' who have worked as such for over 6 months, which is a very good although not certain indication that they are being used for purposes other than management of short term fluctuations in labour demand,
  - Casuals would be able to opt – out of this deeming,

## Statement of Dr Tom Skladzien

- Broader and longer term productivity benefits of a greater proportion of permanent employees would feed back to greater economic growth and labour demand.

31. While I do not believe it to be so, but even if it is the case that deeming 6 month 'permanent casuals' as permanent employees will have significant 'face value' impacts on firm flexibility, I am confident that businesses will be able to manage and largely avoid these potential impacts through management of their casual and permanent workforce, to ensure casuals are indeed being employed to meet flexibility requirements.

32. I have made all the inquiries that I believe are desirable and appropriate and no matters of significance that I regard as relevant have, to my knowledge, been withheld from the Commission.

END

DR TOM SKLADZIEN

9 MARCH 2016