



Submission to the ACTU Inquiry Secure jobs, better future

January 2012

Catalyst Australia welcomes the opportunity to contribute to this Inquiry. We applaud the ACTU for this initiative which we hope results in active public policy to improve employment and income security for Australian workers.

The scope of the Inquiry is broad. In our submission we have chosen to focus on three areas of policy interest, drawing on our work over the past four years.

These issues are set out as follows:

Section 1 summarises our work on inequality and our 2009 publication *Equality Speaks*. Of particular interest is research we commissioned on the distribution of wealth which confirms the central place of work in determining flows of wealth in Australian society.

In this section, we stress that properly functioning, well regulated labour markets provide a foundation for social and economic equality in our society. Public policy should be better informed about the centrality of labour markets in influencing broader social and economic outcomes. We discuss how greater equality in income and wealth within a society contributes to improved health, social cohesion and well-being. Finally we argue that labour market policy must take account of the social costs of poorly functioning (or volatile) labour markets. These include persistent unemployment and under-employment, high welfare costs, intergenerational poverty and lost productivity.

Section 2 discusses our emerging research series, *Full Disclosure*. This work explores the issue of corporate social and environmental responsibility.

We assert that the contested terrain of industrial relations can distract policy makers (and industrial parties) from considering what standards of behavior the community expects from our corporate citizens.

Research has shown there is scope for considerable improvement in how firms in our sample apply global benchmarks around decent work and secure employment. Our analysis suggests that in some instances companies can be reluctant to publicly disclose their approach to labour standards issues.

We conclude that trade unions and civil society organisations have a vital role to play in shaping corporate reporting systems to help lift corporate performance. These organisations need to more actively engage with these systems, which can be an important vehicle to agitate for improved standards for secure employment and decent work.

Section 3: In this section we argue that portability is a vital piece of the policy puzzle. We revive a proposal that Catalyst developed in our submission to the Productivity Commission

Inquiry into Paid Parental Leave. This recommended a system of portable leave accounts – essentially a leave bank for workers that they can draw upon throughout their working lives.¹

Policy suggestions such as these are realistic about attachment to the labour remaining volatile for many workers, particularly women, casual, low paid or low skilled workers. Extending paid leave entitlements to these groups would have a dramatic impact on income security, whilst providing these workers with greater choice and flexibility for paid career breaks.

1. The labour market and the distribution of wealth

In 2009 Catalyst commissioned the National Centre for Social and Economic Modelling (NATSEM) to conduct a study of the distribution of wealth in Australia. The results were written up by Professor Frank Stilwell and David Primrose in our publication *Equality Speaks*. The data commissioned from NATSEM included an analysis of several overlapping social categories, including age, income, gender, occupation, industry and household composition. Overall the findings confirmed the trend towards a concentration of wealth in Australia as highlighted in previous wealth surveys which showed the richest fifth of Australian households each have, on average, forty times more wealth than the poorest fifth of the population.²

The discrete analysis of wealth distribution by occupation and industry highlighted some important findings in terms of how the labour market – and gender within it - impacts on the accumulation of wealth in Australian society. The authors noted:

“The global re-organisation of production by transnational corporations, coupled with changes in technology and the increasingly prevalence of precarious work, has significantly affected both the volume and range of employment opportunities available. This is reflected in the NATSEM survey which shows that the increased dualism in the labour market has been matched by a dualism of personal wealth holders”.

Not surprisingly, the distribution of wealth across occupations showed huge disparities between wealth held by managers, administrators, professional and associate professional groups, and all other occupations.³ This is to be expected given that stocks of wealth strongly correlate with levels of income – so the more you earn, the more assets you can acquire. At the same time, the wealth gap between these occupations and all others was striking. Even more stark was the differences in wealth between men and women within an occupation or industry sector which we discuss below.

Importantly, the NATSEM data underlined how casualization affects the ability of both men and women to build wealth. Industries with high numbers of casual workers delivered very low levels of wealth. Examples are retail trades and accommodation, restaurants and cafes. Men in construction also had low levels of personal wealth as Stilwell and Primrose note:

“...both women and men employed in the retail trade (averaging \$33 600 and \$84 000 wealth respectively) and accommodation, restaurants and cafes (\$24 400 and \$51 900) have relatively low personal wealth. Men in the construction sector and working in cultural and recreational services also have relatively low average wealth, while women in cultural and recreational services and in personal and other services have low levels of accumulated wealth.”

¹ Catalyst Australia Incorporated (2008) Submission to the Productivity Commission Inquiry into Paid Parental Leave www.catalyst.org.au

² The authors refer to a previous NATSEM survey by Kelly in 2002. Australian Bureau of Statistics figures released since the publication in *Equality Speaks* show the wealth held by the richest 20% of Australians has inched up to just over 61%. This is a 0.7% increase in the concentration of wealth since the global financial crisis

³ Surprisingly male elementary clerical sales and service workers also had quite high personal wealth compared with other groups.

The influence of independent contracting arrangements was also observed in the data. Tradespersons had the third lowest average wealth of all the occupational groups, which the authors consider “may reflect the tendency for many tradespeople to have registered as businesses in recent years”. These arrangements are often set up at the request of employers, or taken up to gain tax advantages. Thus wealth held by such individuals may be registered in the name of business rather than of individuals, and thus may be understated in the data.

One of the stand-out features of the NATSEM data was the gender wealth gap, a factor that has been highlighted by Catalyst in media about this report.⁴ Average levels of wealth for men and women were highly unequal across the categories of age, income, occupation and industry. In percentage terms women have only 59% of the average wealth of men. And while the average wealth of men and women working in high status occupations was closer, there are a lot fewer women working in those occupations.

This wealth gap persisted irrespective of what work was done, or the industry in which work was performed. In female dominated industries, such as retail, health and community services the personal wealth held by women was less on average than it was for men. Similarly, within low-income groups, gender wealth differences appeared entrenched.⁵

Although the research did not explicitly explore reasons for these gender differences, it is evident that factors such as segmented labour markets, pay inequity and precarious employment all contribute. These discrepancies translate into relative poverty for women during retirement and an increased reliance by women on government support and pensions. We return to this in Section 3.

The social cost of poor work

There is growing evidence that income and wealth equality within a society contributes to high levels of health and happiness.

Groundbreaking overseas studies, such as *The Spirit Level*, have begun to chart this impact. It shows that once countries achieve a certain level of development, the benefit of continued economic growth drops off: a country getting richer doesn't necessarily mean societies will be happier or healthier. Instead, what matters is where people stand in relation to others in their own society: that is, it's less about the overall amount of wealth in a society, and more about how equally that wealth is distributed. The *Spirit Level* shows that countries that have higher levels of income equality do better on a range of social indicators, including better health, longer life expectancy, lower crime rates and greater levels of social cohesion and well-being.

Despite demonstrating a clear link between income inequality and other factors, this work does not specifically analyse job security or labour market factors. Wages are the main source of income for households, so it follows that policies on industrial relations and collective bargaining, job security, labour market and vocational support help set the foundation for equality in society. Not surprisingly, countries leading the equality table are the Scandinavian and Western European ones. These countries have secure and highly regulated employment conditions for workers and much more formalised industry and sector wide bargaining. Countries with de-centralised industrial systems such as the US, UK and Australia sit further down the equality scale.

Closer to home, in her essay on child poverty in *Equality Speaks*, Zoe Morrison drew a link between high levels of child poverty and household joblessness and wage inequality.⁶ Morrison points out

⁴ Jo-anne Schofield (2009) *Wealth gender gap a chasm*, Crikey, 22nd September, www.crikey.com.

⁵ Men aged 25-64 years who earn \$50,000 or less annually have an average wealth in the range of \$67,800 to \$92,000. There are 58 percent of men are in the category. By contrast there are 85 percent of women in this income category and the amount of wealth they own is even lower – in the range of \$45,500 to \$61,700.

⁶ Zoe Morrison also mentioned high levels of lone parenthood as a key contributor to child poverty. We observe that single parents face significant barriers to balancing work and parenting.

that in 2005, one in seven Australian children lived in poverty – a rate that is alarmingly high by international standards. The link between poverty and joblessness is a crucial one that demonstrates the high social and intergenerational costs that can be caused by lack of work.

In Australian public policy, there can be a tendency to ignore labour market factors as a contributor to other policy problems thereby overlooking the cost compensating for poorly functioning labour markets. Joblessness, resulting in relative poverty, impacts profoundly on many people particularly children as noted above. Secure and safe work is therefore vital in alleviating disadvantage and – in policy terms – is equal to education and health in determining life course and opportunity. As well, secure work can have a positive benefit. The OECD has found that working can improve mental health, but stressed that the “mental health pay-off” from employment depends on working conditions and the type of employment contract. Studies show an improvement in mental health among men who returned to work only when returning to a very secure job after sickness.⁷

Thus, there is a need to join the dots between labour market and other social policy regimes, and look at the extent to which labour market policy should be a driver of broader social equity. The continual contest in the labour market over the rights and rewards of work make this a difficult objective. Some have argued that the focus in our industrial relations system on preventing violations can allow companies to overlook their responsibility to contribute to a positive environment for worker rights.⁸ This is curious because there is strong evidence that respect for workers’ rights, supported by high rates of unionisation, is conducive to business in general and to the profits, income and productivity of individual companies in particular.⁹

We look more closely at this in Section 2.

2. Corporate citizenship

The theme of corporate citizenship was taken up by Catalyst in 2010 in our Full Disclosure research series. In launching that series, we noted:

“...our biggest and most profitable public companies draw their wealth from local resources, consumers and workers [but] ... communities are not well organised to articulate what standards and behavior they expect from corporate Australia. At the same time, there has been a growing reliance on corporations to provide public and community services, with an expanding suite of taxpayer-funded agencies created to regulate and sustain corporate activities.”¹⁰

The *Full Disclosure* series has produced four brief papers, available on our website www.catalyst.org.au.

Our comments below relate to a ground-breaking study commissioned by the CFMEU Mining and Energy Union, and prepared by expert consultancy, Banarra (the Banarra review).¹¹ This study was

⁷ OECD (2008) *Are all jobs good for your health? The impact of work status and working conditions on mental health*, Chapter 4 OECD Economic Outlook 2008, cited in *Equality Speaks*, Chapter 12 *Inequality is bad for our health*

⁸ Fussler, Claude (ed) (2004), *Raising the Bar: Creating Value with the United Nations Global Compact* The World Business Council for Sustainable Development, Chapter 1 *The Un Global Compact: A Primer On The Principles*, as quoted in Catalyst, *Human Rights at Work*.

⁹ Fussler op cit, citing World Bank (2003), *Unions and Collective Bargaining: Economic Effects in a global Environment*, Washington DC, 2004 as quoted in Catalyst *Human Rights at Work*

¹⁰ Catalyst Australia Incorporate (2011), *How Corporations Tell Their Story*, www.catalyst.org.au

¹¹ See Banarra Consulting *2010 Labour Practices in Sustainability Reporting – A review*. As noted the report was commissioned by the Construction, Forestry, Mining and Energy Union, Mining and Energy Division, October 2010. www.banarra.org.au.

summarized by Catalyst in our paper *Human Rights at Work* (available at www.catalyst.org.au along with links to Banarra's report).

Corporate reporting about labour standards

The Banarra review examined labour-standards reporting against the international benchmark, the Global Reporting Initiative (GRI), focusing on the reporting practices of ten sample firms.¹² The GRI is the world's leading voluntary reporting framework, setting out performance indicators for corporate social and environmental reporting.¹³ It was developed and is constantly being improved through a multi-stakeholder process drawing on expertise from civil society, corporate, accounting, trade union and non-government organisations. In 2010, the former Australian Council of Trade Unions President participated in the GRI Stakeholder Council.

The GRI is the leading tool to assess company performance on social and environmental issues. Companies applying the GRI make disclosures about their performance against its benchmarks, typically in sustainability reports that are publicly available on corporate websites. As people spend more and more time at work, the quality of our working life becomes important to our overall health and wellbeing. This underlines the importance of company policies that support decent work and secure employment, through the use of tools such as the GRI. Properly applied, the GRI ensures that workers and unions participate in decisions of the firm in the development of these standards. Disclosures under the GRI ensure that corporations operating in our economy communicate their approach to these issues.

In Australia, the take up of the GRI by firms is considered low compared with their overseas counterparts. Based on their review of sample firms in the area of labour standards, Banarra concluded that there is scope to improve the application and development of GRI principles.

Two aspects of the report that are of interest to this Inquiry relate to decent work and secure employment.¹⁴

Decent work

The Banarra review noted that disclosures about decent conditions of work was *one of the least reported areas* looked at in their review. This suggests reluctance by companies to disclose their approach to policies supporting decent work, something which is surprising in light of public policy and community interest in improving the quality of working life. It is highly likely that more information about the approach of firms would be well-received by the workers and the community.

The GRI indicators for decent work include differences in benefits between full-time and temporary/part-time employees, amount of defined benefit plan obligations, and comparison of standard entry-level wage compared to local minimum wage. However union stakeholders consulted by Banarra felt that these guidelines needed improvement, as they addressed only one of their issues of concern (pay rates and benefits). Other issues that stakeholders would like to see Australian companies address include more detail on working hours, company policy on flexible working conditions (especially paid parental leave) and take-up rates, and greater attention to risk in performance reward systems.

¹² The selection of sample firms is aligned with those selected as part of the Catalyst *Full Disclosure* series.

¹³ Catalyst (2011) *How corporations tell their story* provides a discussion of the GRI and other reporting frameworks. See also www.globalreporting.com

¹⁴ Several other labour standards benchmarks were investigated by this review, including collective bargaining, equal opportunity and health and safety. We refer the Inquiry to the full report should they have further interest in these issues.

Secure employment

The GRI contains indicators for secure employment that include breakdown of workforce by employment type and contract type, turnover rates and minimum notice periods for significant operational change. In looking at the take up of these guidelines by sample firms, the review found that the quality of company reporting around the indicators was generally inconsistent with the GRI guidelines. Information on aspects of secure employment was incomplete and the issues of interest to stakeholders were left out.

Additionally, union stakeholders consulted about the standards felt that they could be improved. In particular:

None of the indicators directly address [issues of interest to stakeholders, such as]: changes in workforce size, working hours or nature of job functions; levels of uncertainty and fluctuation in conditions of work; the company's approach to and rationale for use of contractors and casual(s)... [Or] policies and practices for responding to contractors who would like to be permanently employed.

Improving corporate performance about decent work

The veracity of systems of voluntary corporate social and environmental reporting against standards such as the GRI relies upon companies making public disclosures. It also requires broad stakeholder engagement as companies are expected to base their report content on a *clear understanding of who their stakeholders are and the issues of most interest to stakeholders*.¹⁵

Astoundingly, in their review of the ten companies, Banarra found that only two of the ten companies included unions in their list of stakeholder groups. A conclusion that we have drawn from this finding is that companies do not see unions as legitimate stakeholders to be consulted about issues when applying the GRI.

It also suggests a need for unions and civil society organisations to be more active participants in the process of developing and evaluating corporate reporting benchmarks. Along with more direct measures, such as regulation and public policy reform, this can be an important vehicle for unions to use in the future to agitate for improved standards for secure employment and decent work, amongst others.

While this Inquiry must balance the need to bring insecure work into a more regulated industrial framework, at the same time it should look to creative approaches to future policy. This is best achieved by drawing on a suite of tools such as corporate reporting systems – and also by considering new policies like portability of entitlements, as we outline below.

3. Portability: A vital piece of the policy puzzle

In its discussion paper, *Insecure work, anxious lives: the growing crisis of insecure work in Australia*, the ACTU has outlined how labour market deregulation is impacting on workers.

Deregulation has been accompanied by a massive growth in the knowledge economy and the creation of new jobs built around a 24/7 service delivery model. This follows a dramatic shift in the way we work over the past two decades. As a result, Australia leads the table of OECD countries in its levels of casual and temporary employment. For women in particular this has resulted in a surge in casual, part time and flexible jobs as women struggle to balance family responsibilities outside

¹⁵ Catalyst (2011) *Human Rights at Work*, citing Banarra Report, page 16

work. This can mask women's persistently high levels of under-employment.¹⁶ In its discussion paper the ACTU refers to women "being forced to accept low paying jobs with poor conditions and minimum rights". As we outlined in Section 1 this undermines women's ability to accumulate wealth over their working lives.

New approaches to tackling inequality are needed. Catalyst has previously argued for a system of portable leave accounts for workers. This proposal was advanced in our 2009 submission to the Productivity Commission's Inquiry into Paid Parental Leave and was tailored to the use of portable leave accounts for that purpose. At that time we emphasized such a proposal could have a broader application, and we revive the main principles below. While recognizing that further development of this concept is needed, we maintain that it is a good fit with contemporary Australian working life. Leave accounts recognise that people frequently move from job to job, and that transitions in and out of the labour market are likely for most workers.

Our proposal draws on the experience of portable long service leave schemes that have operated successfully in the construction and contract cleaning industries for many years. In these industries, such schemes emerged to accommodate the needs of workers who have short term attachment to an employer, but long term attachment to an industry - characteristics that are now prevalent across our economy.

What is a leave account?

A leave account is a simple leave bank account for workers which is portable and moves with them from job to job over the course a person's working life. A leave account is funded by a small percentage contribution from employers that accrues into a larger entitlement over a period of several years.

The account would be drawn upon to pay for time out of work. It would operate alongside existing annual and parental leave entitlements rather than replace them. However the leave account would replace existing long service leave entitlements, essentially modernizing long service leave by rolling it into a new entitlement.

Central to this proposal is the realization that few people have the opportunity to stay in a job for long enough to satisfy the qualifying period for long service leave. Thus the scheme is based on time in the workforce rather than time spent with a single employer, or in a single industry.

However, unlike existing long service schemes where an employer holds a liability for long service leave entitlements that may or may not be realized, the leave account accrual is banked immediately in the workers account. This helps limit business liability for unpaid long service leave and at the same time minimises the risk of worker entitlements being lost in cases of insolvency.

How would the scheme operate?

A leave account would be opened when a worker first starts work and would continue to accrue throughout a person's working life - in a similar way that long service leave accrues now. An account can be drawn down once the qualifying period is met (see below).

The scheme would be established by legislation. As with superannuation guarantee contributions, the employer would pay a small percentage of earnings to reflect hours worked and salary level. As a guide, new portable long service leave schemes in the ACT, NSW and Queensland contract cleaning industries were funded at between 1.7 and 2% contribution of payroll. This amount was modeled on making retrospective payments to cover an older workforce.

¹⁶ The OECD has referred to Australia's large under-utilised labour reserve among women OECD (2005) *Ageing and Employment Policies in Australia*

In those cases actuarial work and industry consultation established the qualifying period and the employer contribution which is set out in underpinning legislation. This would be essential in determining the cost of an economy wide portability scheme.

Once the legislated qualifying period is reached a worker would draw on funds in the account to cover absences. Casual and temporary employees should be eligible to hold leave accounts. In their case employer contributions would be based on hours worked and funded at ordinary hourly rates. Independent contractors and self-employed people should also be eligible, but would meet their own costs as they currently do with superannuation guarantee payments.

A further option is to enable individuals to contribute to their accounts if they chose. For example, if a worker planned a career break, wanted to take leave to care for elderly parents or family members or to cover periods of study.

Administration

In terms of the overall model of a scheme, we suggest either a superannuation style trustee model establishing a central fund or alternatively administration by a central government fund (similar to the Future Fund), but there may be other models that could be investigated.

As well as being simple to administer, a single centrally managed scheme will usually become self-funding over time through interest earned on investment. Thus entitlements can be subsidized and costs to employers may be substantially reduced or fully compensated.

In our submission to the Productivity Commission we stated:

“... leave accounts could be a vital piece of the policy puzzle. They give people greater autonomy and control about the best mix of their work and family responsibilities. They impose minimal costs on all employers and are a cost effective solution for government. They support new ways of taking leave to care for children, and are available to both men and women.”

Since then, a paid parental leave scheme has been legislated, but this does not negate the broader applicability of our leave account proposal, which would complement this initiative existing entitlements.

In the broadest sense a leave account would help offset the cost to individuals of periods out of the workforce. This would improve income security of all workers, particularly to those who are most at risk of periods out of the labour market, and often least able to afford them.

4: Conclusion

We appreciate the opportunity to provide this submission to the Inquiry and hope that our paper has confirmed:

1. The centrality of labour markets in providing a foundation for equality and social cohesion, and in determining the distribution of wealth and income in our society;
2. The need to look beyond traditional industrial tools and embrace international standards such as the GRI to bolster community and corporate standards about secure employment and decent work;
3. The use of innovative policies, like portability of leave to ameliorate the effect of precarious employment on workers.

We would be happy to discuss any aspect of this submission with the Inquiry or to expand on any of the information that we have put.

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