

**Change**  
**THE**  
**RULES**



# The myth of the casual wage premium

Authorised by S. McManus, 365 Queen St, Melbourne 3000. ACTU D No. 196/2018

**Change**  
**THE**  
**RULES**

Australian  
Unions  
Join. For a  
better life.

**CASUAL  
LOADING**

## Summary

Australia has the highest proportion of temporary labour in the OECD. We have 5 times the proportion of temporary employees that the UK has, 2.5 times that of Germany and double the proportion in France. This reflects a deregulatory trend in Australia that has shifted risk away from corporations and onto workers.

Despite the generally held view that casuals are paid a loading to compensate for insecure work and the denial of paid sick leave and holidays, most casuals are not being paid more than permanent workers in the same jobs. In fact, the longer they are made to stay as casuals, the more likely that they will actually be paid less than permanent employees.

Available data suggests that about half of all casuals would prefer permanency with paid leave. This is the strong preference for men in casual work and all casuals aged 25 to 34. Younger workers aged 15 to 25 doing casual work are more likely to prefer a wage premium over paid leave if given the choice. However, regardless of individual preferences, the use of casual work as the dominant business model in some industries means that most workers don't have the choice.

### Key facts

- The rates of temporary work in Australia are not normal. They are the highest in the OECD.
- Casual workers are not being paid more, yet they are losing basic entitlements.
- While some casuals would prefer higher wages over permanency with paid leave, many others would not.

## Issue

In Australia we use the term “casual” to cover a large and somewhat diverse section of the labour force. The Australian Bureau of Statistics defines casual workers as employees without access to leave entitlements.

In theory, casual workers should receive a loading on their hourly wage. A “casual loading”, commonly of 25%, is provided for in many awards and agreements. Amongst other things, this loading is to compensate casual workers for not receiving leave entitlements and for the insecure nature of casual work. However, there is significant evidence that casuals are not receiving anything like a 25% wage premium compared to their permanently employed counterparts.

### Key Facts

- Workers labelled as casuals are a large part of the labour force with around 1 in 4 of all employees described as casuals.
- According to ABS figures around a third of casuals (34.3%) said they didn't receive any casual loading at all.
- Published empirical evidence suggests the casual premium is around 4-5% compared to permanent workers
- Over the long term, there is evidence of a wage penalty for casuals compared to permanent workers.
- Casuals are much more likely to be women, younger workers and working in low paid sectors. The sectors that have high casual density include accommodation and food services, retail, agriculture, administration and arts and recreation sectors.
- Australia has an extremely high proportion of ‘casual workers’ compared to other OECD countries.

## The evidence

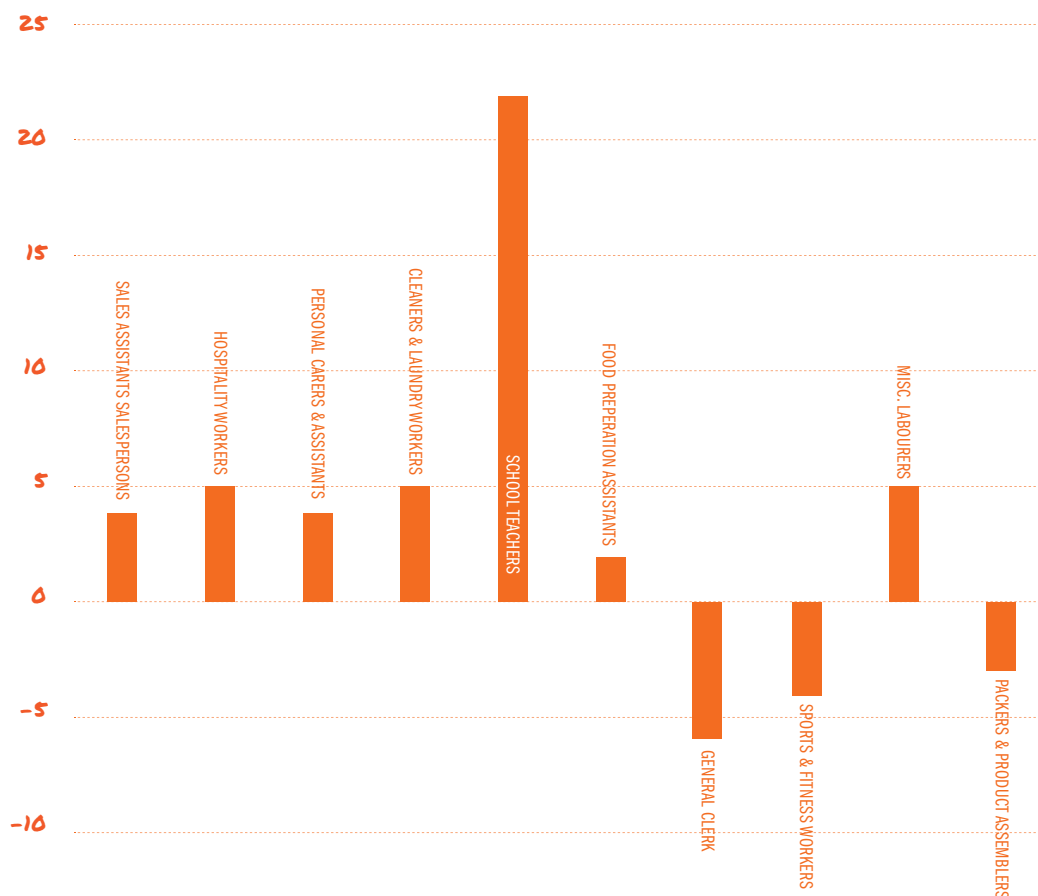
When casuals were asked by the ABS 34.3% said they didn't receive any casual loading at all (Note: ABS stopped asking this question in 2012). Even where a loading is paid there is also evidence that the level of the casual loading is small and inadequate considering the loss of entitlements and the insecure nature of casual employment.

One approach in determining whether casual workers are paid more and therefore cost their employers more to employ is simply to compare the hourly wages of casual and "non-casual" (permanent and fixed-term) employees in the same occupations. This can be done using data from the 2016 ABS Survey of Employee Earnings and Hours. Joshua Healy, senior Research Fellow, Centre for Workplace Leadership, University of Melbourne has recently looked at this (please see <https://theconversation.com/the-costs-of-a-casual-job-are-now-outweighing-any-pay-benefits-82207>).

He compared median hourly wages for adult non-managerial employees, based on their ordinary earnings and hours of work (i.e. excluding overtime payments). If the median wage for casuals is higher than for non-casuals, there is a casual premium. If the median casual wage is lower, there is a penalty.

The 10 occupations he assessed accounted for over half of all adult casual workers in 2016 and are the 10 occupations with the highest casual density. In most of these occupations, there is a modest casual wage premium - in the order of 4-5%.

Figure one: The casual premium in the top ten occupations with the highest casual density



The size of the typical casual wage premium is much smaller, in most cases, than the loadings written into awards and agreements. Only one occupation (school teachers) has a premium (22%) in line with what might be expected. While Healy doesn't attribute a cause to this outcome, it is apparent that the significant gap between award minima and actual paid rates in much of the economy leaves plenty of scope for employers to absorb the award prescribed 25% casual loading while withholding accrued leave entitlements and security of tenure. The fact that many school teachers are employed under state awards or Enterprise Agreements that effectively provide paid rates with no market based gap and it is school teachers who have the highest actual premium offers some support to this analysis.

Apart from school teachers' 22% premium, of the other nine occupations, six have a modest premium of 2% to 5%, and three actually have a wage penalty of between 3% and 6%

This method of analysis suggests that few casual workers enjoy substantially higher wages as a trade-off for paid leave or job insecurity.

### **1. Controlling for other variables also suggests a low casual premium**

One major Australian study in 2005 'Contented Workers in Inferior Jobs? Re-Assessing Casual Employment in Australia' compared wages after taking account of many factors other than occupation, including age, education, job location, and employer size.

The author Ian Watson fitted earnings equations to the Household, Income and Labour Dynamics in Australia Survey (HILDA) data and found that casual employees earn only a modest premium over permanent employees. He found that, casual workers received an hourly wage premium over full-time, permanent workers ranging between 4 and 7% for women (there are significantly more female casual workers than male) while men received an average premium of 10%.

These results imply that most casual workers were paid slightly higher hourly wages than comparable employees in permanent positions. However, the value of the benefit is again found to be significantly less than the casual loadings mentioned in awards and agreements.

It seems that where there was some short-term financial compensation for being a casual worker who missed out on paid leave accruals, this compensation was less than the value of the entitlements withheld from casual workers.

### **2. Some evidence suggests there is a pay penalty over the long-term for casual workers. Women employed as casuals earn up to 4% less than permanents, while for men the penalty can be as high as 10%**

A recent study 'Casual employment and long-term wage outcomes' by Irma Mooi-Reci and Mark Wooden using 14 years of data from the HILDA, found no evidence of any long-term pay benefit for casual workers.

Using longitudinal data from the HILDA Survey spanning the period 2001 to 2014, Mooi-Reci and Wooden examined how employment status earlier in a working career is associated with subsequent wage dynamics. Particular attention was paid to how wage trajectories vary with gender and age.

Estimates from a series of panel data models of real hourly wages revealed that there was an average long-run penalty from casual employment of 4% for women and 10% for men, suggesting that prolonged engagement as a casual employee has long term detrimental financial impacts for the workers involved.

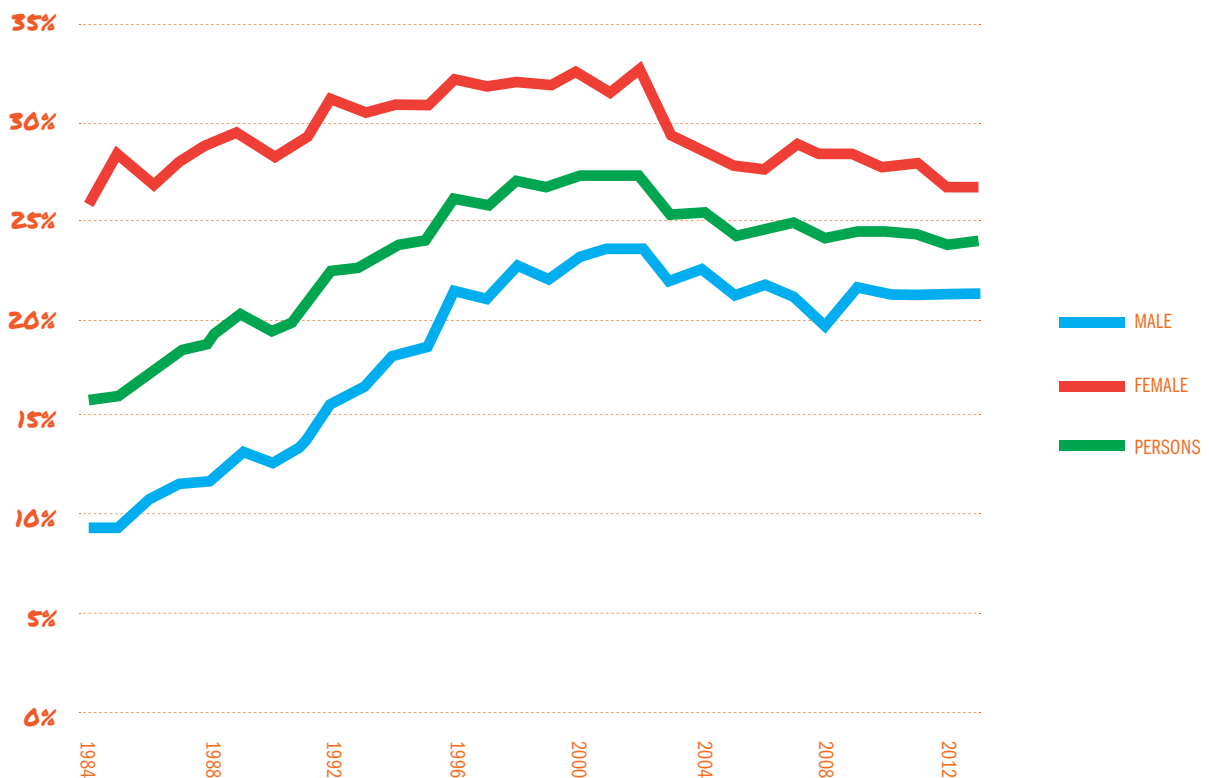
The average casual wage penalty of 4% for women and 10% for men is the opposite of what we should see if casual loadings offset the foregone leave and insecurity of casual jobs. Rather than getting paid the equivalent or more than permanent workers, casuals actually earn less over the long run.

## Casual employment, who does it affect?

The number of workers in casual employment increased by over half a million between 2005 and 2016, to reach 2.5 million workers. But the proportion of Australian employees engaged in casual work has fluctuated significantly over the past decades: it increased from 15.8% of total employment in 1984 to 27.7% in 2004, dropping back to 23.5% in 2012 before increasing again to its current ratio of 25.1%. This growth since 1984 coincides with an era of labour market deregulation which saw to a rapid expansion in insecure work including fixed-term contracts, labour hire arrangements and 'independent contracting', all of which have provided employers with alternative ways to secure their labour inputs while minimising labour costs and shifting the economic risk on to their workers.

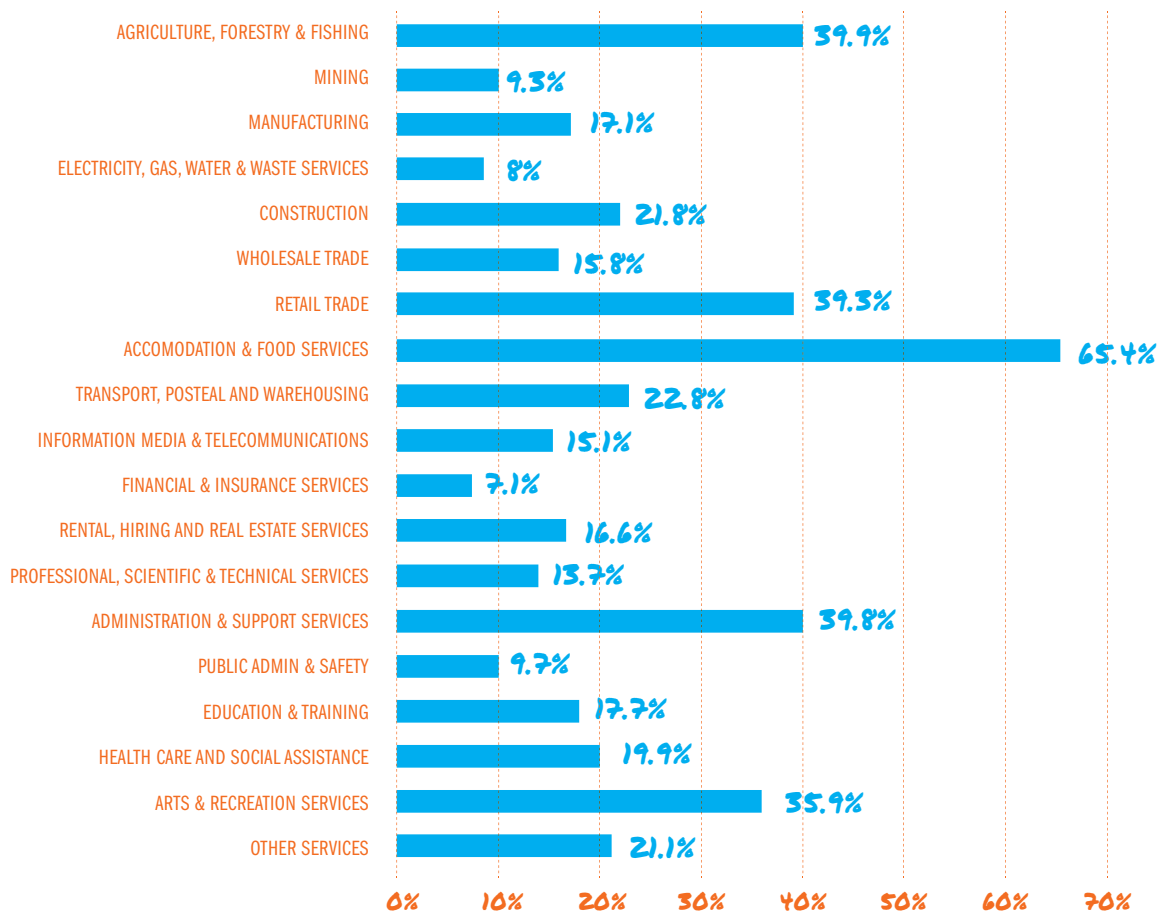
Younger workers are more likely to be labelled as casuals with 38% of all casuals aged between 15 and 25. And Women have historically been much more likely to be treated as casuals than men.

Figure two: Women have historically been much more likely to be treated as casuals than men



Casual work is concentrated in low paying sectors of the economy. Casual employees continue to be heavily concentrated in a few industries. Casuals make up 65% of the Accommodation and Food Services sector and nearly 40% of the Agriculture, Forestry and Fishing sector, Administrative services, Retail trade and Arts and Recreation sectors. However, it is important to note that casual work is not confined to these sectors.

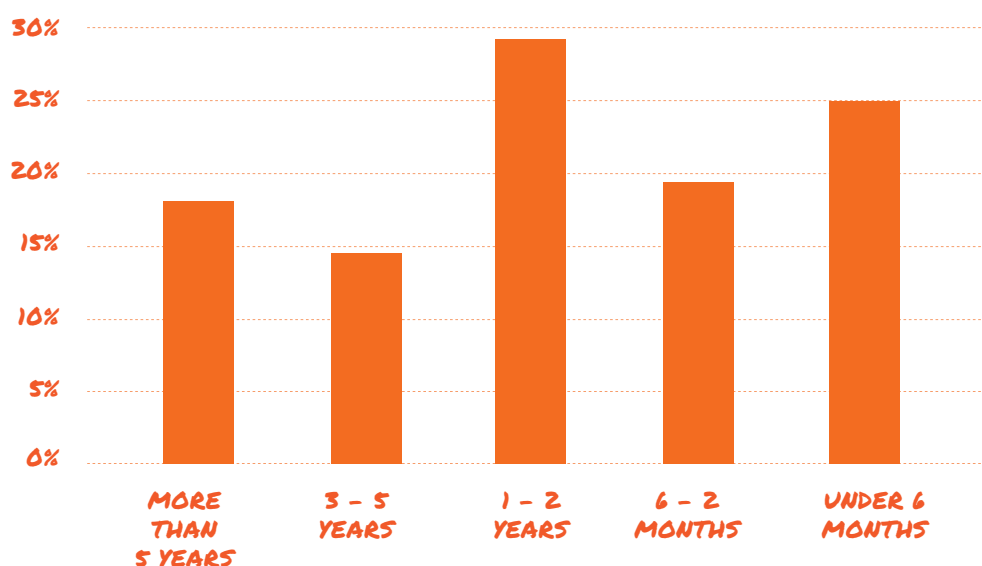
Figure three: Casual workers by industry classification



Over half of all casual employees can be classified as “permanent casual” in that they have a long-term ongoing employment relationship but this does not mean they receive the employment conditions associated with permanent employment. Close to 60% of all casuals have been employed in their current jobs for over a year and 17% of casuals have been in their job for more than five years. A significant 76.2% of casual workers have had continuous employment with one employer for over 6 months.

It is a myth that all those working as casuals choose casual work because it suits their work-life balance. In fact ABS data from 2007 (not subsequently updated) said that about half of all casual employees would prefer to be in regular permanent work if given the choice. Casual employees aged 25-34 were most likely to prefer paid leave over a higher pay (65%), with 70% of men and 59% of women in that age group preferring paid leave. Workers 55 and over (37%) and younger workers aged 15-24 (46%) were the least likely to prefer paid leave over a higher pay.

Figure Four: Proportion of casual workers experiencing various lengths of continuous employment with one employer



Given the long periods of continuous employment with one employer and the predictability of working hours it is clear that many casual workers are not only economically dependent on a single employer but are misclassified and should be classified as permanent employees and given all the rights and protections that apply to these workers.

While a high proportion of casual employees are economically dependent on a single employer this does not mean they are fully employed or that that they have normal working hours. On the contrary, casual workers are highly likely to endure irregular and insufficient hours of work. This generates large fluctuations in earnings, with around 53% of casuals experiencing variable earnings from one pay period to another. ABS data for August 2016 reveals the following additional characteristics about casuals. Compared to permanent full-time or part-time employees they are:

- much less likely to be guaranteed a minimum level of weekly working hours;
- far more likely to have large fluctuations in working hours from one week to the next ; and,
- three times more likely to want additional working hours.

The category “casual worker” does not exist in many advanced economies and people doing this type of work will often be classified as “temporary workers” in the definitions that apply in many OECD countries. Temporary work is conventionally seen as a synonym for non-permanent wage work. In this approach, wage work is often grouped into two main categories: “permanent” and “temporary”. The definition of temporary work in most countries overlaps with the category of casual in Australia but there are also important differences.



Nonetheless, it is clear from the Table below that Australia has an extremely high proportion of temporary workers compared to other OECD countries. Spain is one country that approaches a similar level of temporary work as Australia. However when we examine temporary employees in Spain carefully it becomes evident that the main form of temporary employment is fixed term contacts. These workers obviously suffer employment insecurity as a consequence of the limited duration of the employment. but otherwise their rights and entitlements are largely the same as those of permanent workers.

The proportion of workers who are denied basic rights in Australia makes our country only comparable to the USA among advanced economies. This is not a record or comparison that any country would envy.

The vast majority of OECD countries have nowhere near the level of worker rights abuses that are being experienced in both Australia and the USA.

*Table: Temporary employees as a proportion of total employees in selected OECD countries, 1983-2016 selected years*

	1983	1994	1998	2002	2006	2010	2014	2016
<b>AUSTRALIA</b>	15.6	23.5	26.9	27.3	24.3	24.2	23.8	25.1
<b>BELGIUM</b>	5.4	5.1	7.8	7.6	6.9	6.5	7.0	7.4
<b>DENMARK</b>	12.5	12	10.1	8.9	7.2	7.0	7.0	11.4
<b>FINLAND</b>	11.3	13.5	17.7	17.3	13.2	12.4	12.2	12.6
<b>FRANCE</b>	3.3	11	13.9	14.1			12.6	12.3
<b>GERMANY</b>	10	10.3	12.3	12	10.5	11.0	10.0	10.2
<b>GREECE</b>	16.2	10.3	13	11.3	6.8	8.1	7.5	7.4
<b>IRELAND</b>	6.1	9.4	7.7	5.3	6.0	7.6	7.5	6.5
<b>LUXEMBOURG</b>	3.2	2.9	2.9	4.3	5.1	5.9	6.7	7.4
<b>NETHERLANDS</b>	5.8	10.9	12.7	14.3	11.9	13.0	15.1	14.3
<b>PORTUGAL</b>	14.4	9.4	17.4	21.8	15.7	13.0	15.1	14.3
<b>SPAIN</b>	15.7	33.7	32.9	31.2	27.1	20.3	19.6	21.5
<b>SWEDEN</b>	12	13.5	12.9	15.7	13.3	12.6	13.6	13.2
<b>UK</b>	5.5	6.5	7.1	6.1	4.4	4.7	4.8	4.5

The information presented in the Table above can be seen more clearly in the figure on the next page.

Figure Five: Temporary employees as a proportion of total employees in selected OECD countries in 2016

