



Benefit from greater flexibility in employment arrangements

A report to the Fair Work Commission

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Objective

The objective of this report is to assess in which industries (and hence in which modern awards) there might be the greatest potential immediate benefit from allowing extra flexibility in employment arrangements during the period in which the COVID-19 pandemic is impacting on the Australian labour market.

The structure of the report is as follows. Section 2 presents a brief background on the labour market impact of COVID-19 in Australia. Section 3 describes benefits from allowing greater flexibility in employment arrangements during the pandemic. Section 4 identifies industries where those benefits appear potentially most likely to exist. Section 5 translates the industry-level analysis to the framework of modern awards.

Background

The increasing incidence of COVID-19 in Australia has begun in the past week to have major consequences for the labour market. The immediate impact has been on the demand for labour; eventually, however, there are also likely to be large effects on labour supply.

The immediate impact of the pandemic on labour demand has derived from two main sources. First, consumers are being prevented from undertaking specified activities by the government and are avoiding activities where they believe they are at risk of catching COVID-19. Examples are eating at cafes, attending sporting and arts events and travel for holidays. Second, a range of factors – including uncertainty, lower wealth and reduced time available for buying activity – is meaning less spending on semi-durable and durable consumption goods. Examples are buying whitegoods and motor vehicles.

Several features of the impact on labour demand are notable, when compared with previous downturns and recessions. A first feature is the speed and scale of the decline in labour demand in a subset of industries – such as supply of food and beverages. A second feature is the extent of variability across industries in the change in labour demand – with some industries (such as food retailing) experiencing increases and others where demand has decreased substantially.

Effects on labour supply are now likely to commence as schools and childcare centres begin to close, with some workers needing to withdraw to care for their children (with the effect being accentuated by parents not wanting to risk having grand-parents look after their children). In the coming weeks, there will be further implications for labour supply. First, illness from COVID-19 will cause workers to need to withdraw from their employment. Second, workers will need to withdraw to provide care for family members who become ill. Third, some workers may withdraw from employment out of concern for becoming ill or due to being required to undergo a quarantine period.

What is meant by ‘benefit from allowing extra flexibility?’

In this report the term ‘allowing extra flexibility in employment arrangements’ is taken to mean that it may be possible to modify award provisions in order to make it easier for a worker’s hours of work to be varied – for example, from full-time to part-time. Allowing extra flexibility in this way could mean that extra employees are able to be retained in employment in response to a decrease in labour demand. For example, a business which used to hire three workers for 40 hours per week, and which during the pandemic only requires 40 hours of labour in total, might then be able to retain each of the

three workers for 13 ⅓ hours per week, rather than needing to lay off two workers and retaining one worker in a full-time position.

Retaining extra employees in employment has potential benefits for both the employee and an employer. Employees who are laid off experience a variety of costs that do not occur (or are smaller than) when they are retained at reduced hours – including loss of income; loss of firm-specific human capital and skill atrophy; negative psychological effects; and the need to undertake search activity to find a new job. Similarly, employers who layoff a worker and subsequently need to hire a new worker to fill the vacancy created when demand conditions improve will experience costs that do not occur when they can retain employees at reduced hours – including loss of the value of firm-specific human capital accumulated by the worker; and costs of searching for new worker and retraining.

The potential benefits of retaining employees during episodes such as the current pandemic seems to represent are especially large. Many firms are experiencing a substantial decrease in their demand for labour, but as the pandemic is controlled are likely to have the same level of labour demand as before the pandemic. That reversal of the effect on labour demand, together with what will hopefully be a shorter duration than an average downturn, makes it more valuable for firms to retain an already trained worker and to not have to search for a new worker.

In which industries is the immediate benefit from allowing extra flexibility likely to be greatest?

My assessment of industries where there will be the greatest immediate benefit from allowing extra flexibility is undertaken in two parts:

- First, I identify industries in which there is the largest potential immediate negative impacts on employment. The basis for there being benefits from flexibility is that COVID-19 is causing a decrease in the demand for the labour of some group of workers. Identifying where the largest negative effects on employment are likely to occur, however, is not straightforward. No data on recent changes in employment are as yet available. Hence, it is necessary to make the identification based on the degree to which workers are likely to have been affected by government regulations and other consequences of COVID-19.
- Second, from the industries identified in the first step I suggest a subset where flexibility in hours of work might allow employees to be retained. There is no precise way to make this selection – instead it is necessary to use judgment based on an understanding of factors that affect the scope to avoid layoffs by work-sharing. These factors will include: the feasibility of work being done via part-time employment (for example, which might differ between retail trade and manufacturing); and the scale of decrease in labour demand (for example, where the government has entirely prohibited an activity - such as attending bars and cafes - there may be less scope to adjust hours as an alternative to layoffs).

In Table 1 I list the industries that seem most likely to experience decreases in employment as an immediate consequence of COVID-19. For each industry I provide a brief rationale for why a decrease might be expected and the level of employment in November 2019 (ABS, Labour Force Survey).

Broadly, the industries fall into three categories. The first category are industries where there has been a decrease in labour demand due to government restrictions. In these industries the existing shares of part-time work suggest that there is scope to adjust to the decrease by sharing hours across workers. The main impediment to this happening is that in industries affected by government restrictions the scope to avoid layoffs may be limited by the scale of the decrease in labour demand. The second category are industries affected by a decrease in labour demand due to households

reducing their spending - for example, on semi-durable and durable goods. In these industries the extent of reduction in labour demand, at least thus far, does appear to allow adjustment of hours of work as a means to avoid layoffs. The shares of part-time work in those industries suggest that this should be feasible to some degree. The third category are industries where there have not as yet been major decreases in labour demand, but where more stringent government restrictions or other factors may cause a decrease in labour demand in the future. In these industries there does appear to be scope for adjustment to demand for labour by changing hours of work.

Which Modern Awards should be considered for extra flexibility?

The analysis of industries where adjustment to the decrease in labour demand might occur via changes to hours of work can be mapped to the modern award structure using a template developed by the Fair Work Commission (Michael Preston et al., 2012, '*Analysing modern award coverage using the Australian and New Zealand Standard Industrial Classification 2006: Phase 1 Report*', Fair Work Commission Research Report 2/2012). The mapping is shown in the final column of Table 1.

From the mapping it is possible to nominate a set of modern awards where it might be most valuable in the immediate term to allow extra flexibility in employment arrangements – in terms of the number of workers affected and the scope for adjustment in hours of work.

- From the first category of industries, the main modern awards are: *Restaurant Industry Award 2010*; *Fast Food Industry Award 2010*; and *Hospitality Industry (General) Award 2010*.
- From the second category of industries, the main modern awards are: *General Retail Industry Award 2010*; *Vehicle Manufacturing, Repair, Services and Retail Award 2010*.
- For possible consideration in the longer-term, depending on the evolution of labour demand, the *Building and Construction General on-site Award 2010*.

Table 1: Industries likely to be affected by COVID-19

Industry	Rationale for inclusion	Employment (November 2019; Thousands)	Modern Award
Affected by closures ordered by government			
Cafes, restaurants and takeaway food services	Closure ordered by government – Takeaway still currently available	683.8	Restaurant Industry Award 2010 (4511); Fast Food Industry Award 2010 (4512)
Pubs, taverns and bars	Closure ordered by government	92.1	Hospitality Industry (General) Award 2010 (4520)
Clubs (hospitality)	Closure ordered by government	56.4	Registered and Licensed Clubs Award 2010 (4530)
Air and space transport	Negative impact on air travel due to border closures	46.7	Air Pilots Award 2010 + Aircraft Cabin Crew Award 2010 (4900)
Accommodation	Negative effect due to government mobility restrictions	92.5	Hospitality Industry (General) Award 2010 (4400)
Motion picture and video	Closure due to government restrictions	37.3	Broadcasting, Recorded Entertainment and Cinemas Award 2010 (5513)
Museum operations	Closure ordered by government	9.7	Amusements, Events and Recreation Award 2010 + Local Government Industry Award 2010 (8910)

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Industry	Rationale for inclusion	Employment (November 2019; Thousands)	Modern Award
Parks and gardens operations	Some closures ordered by government	30.8	Amusements, Events and Recreation Award 2010 (8921 and 8922)
Creative and performing arts activities	Closure ordered by government	42.8	Live Performance Award 2010 (9001, 9002 and 9003)
Sports and physical recreation activities	Some closures due to government policy	112.6	Fitness Industry Award 2010 (9111, 9112 and 9113); Sporting Organisations Award 2020 (9114); Professional Diving Industry (Recreational) Award 2010
Gambling activities	Likely negative effect due to closure of major sporting competitions	34.5	Hospitality Industry (General) Award 2010 (9201, 9202 and 9203)
Real estate services	Restrictions on activities ordered by government	124.6	Real Estate Industry Award 2020 (6720)
Travel agency and tour-related services	Negative impact on travel and tourism from restrictions on activities ordered by government	45.9	General Retail Industry Award 2010 (2010); Marine Tourism and Charter Vessels Award 2010
Households reduce purchases of durable goods and discretionary spending			
Retail – Clothing, footwear and personal accessories	Negative impact due to households reducing purchases of durable goods	149.5	General Retail Industry Award 2010 (4251, 4252, 4253 and 4259)

Industry	Rationale for inclusion	Employment (November 2019; Thousands)	Modern Award
Retail – Recreational goods retailing	Negative impact due to households reducing discretionary purchases	47.2	General Retail Industry Award 2010 (4241, 4242, 4243, 4244 and 4245)
Retail – Furniture, floor coverings, houseware and textile goods	Negative impact due to households reducing purchases of durable goods	61.5	General Retail Industry Award 2010 (4211, 4212, 4213 and 4214)
Retail – Department stores	Negative impact due to households reducing purchases of durable goods	64.3	General Retail Industry Award 2010 (4260)
Retail – Motor vehicles	Negative impact due to households reducing purchases of durable goods	77.6	Vehicle Manufacturing, Repair, Services and Retail Award 2010 (3911, 3912 and 3913)
Wholesale – Motor vehicles and motor vehicle parts	Negative impact due to households reducing purchases of durable goods	26.2	Vehicle Manufacturing, Repair, Services and Retail Award 2010 (3501, 3502 and 3503)
Furniture manufacturing	Negative impact due to households reducing purchases of durable goods	42.1	Timber Industry Award 2010 (2511); Manufacturing and Associated Industries and Occupations Award 2010 (2512 and 2513)
Tertiary education	Negative impact due to reduced number of international students – especially English language colleges	246.7	Higher Education Industry – General Staff – Award 2010 (8102)
Adult, community and other education	Decrease in demand due to avoidance of COVID-19	204.8	Variety of secondary awards (8211, 8212 and 8219)

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Industry	Rationale for inclusion	Employment (November 2019; Thousands)	Modern Award
Personal care services	Decrease in demand due to avoidance of COVID-19; Could be affected by future government closure	128.8	Hair and Beauty Industry Award 2010 (9511); Fitness Industry Award 2010 (9512)
Other personal services (Parking services etc)	Negative impact due to reductions in household travel	66.8	Dry Cleaning and Laundry Industry Award 2010 (9531); Car Parking Award 2020 (9533)
Potential future effects			
Automotive repair and maintenance	Decrease due to reduced motor vehicle travel and reduced discretionary spending	136.4	Vehicle Manufacturing, Repair, Services and Retail Award 2010 (9411, 9412 and 9413)
Preschool education	Would be affected by government shut-down decision	58.2	Educational Services (Teachers) Award 2010 (8010)
Non-residential building construction	Possible supply chain impacts	60.4	Building and Construction General on-site Award 2010 (3020)
Heavy and civil engineering construction	Possible supply chain impacts	108.8	Building and Construction General On-site Award 2010 (3101 and 3109)