Just How Many Are There?
Employees?
Independent Contractors?
Clarifying the Confusing Statistics

by Alan Moran
(An assessment by the IPA’s Work Reform Unit, June 2002)

Introduction and Summary

It is generally accepted that there has been a shift away from traditional employment to other forms of work engagement, generally known as independent contracting. There is, however, debate over how large the shift is and what the actual numbers of people are who work but are not 'employed'. Based on the same ABS data, different commentators draw different conclusions. This paper seeks to explain and clarify those differences.

Our conclusion is that there is significant clarity and agreement on the core statistics, but that confusion reigns as to how to interpret the data about some of the subsets.

The following is clear from the 1998 ABS data:

- 79.6% of workforce (6,683,000 people) work in all forms of traditional employment.
- 20.4% of workforce (1,712,000 people) work through all forms of non-employment.

Other categories of 'non-employee' worker, however, mean that the latter figure is understated. The best interpretation to be had is that:

- 23.4% of workers were non-employees. This amounts to 2,167,000 people, based on the estimates of the labour force in April 2002.

It can also be shown that the share of contractors, entrepreneurs and other non-employees is:
over 28% in the private-sector workforce.

Reason for this paper

Clarifying the number of independent contractors and other non-employees versus employees is critical to public policy analysis and design. Having reliable data is essential for:

- Policy formation for tax administration, social security design and administration, education and training policies, occupational health and safety, and workers' compensation issues.
- Design of appropriate private-sector regulation, particularly in the area of competition policy design and administration.

Share of Non-Employees in the Workforce

The Issues

It is clear that the nature of work has been undergoing change in our society. This has increased the complexity of defining a 'worker' or 'employee'.

The ABS collects data in three forms:

- The Labour Force Survey (6203) which counts up all employed persons; this divides workers into three main categories: employees, own-account workers, and employers.
- The Forms of Employment Survey (6359), which counts workers as non-owner managers, and owner managers.
- Working Arrangements (6342) which deals with employee types.

The issue of what constitutes an 'employee' has been in dispute for some time. The legal definition is that as traditionally defined under the common law—namely, as a person working under a 'contract of service'. This is generally a difficult definition for statistical collection purposes, because many people, such as employers and many professionals who undertake work for which they are paid, would define themselves as 'employed'.

Aside from some automatic ambiguity about what contractual relationship people have with others who pay them to do work, other reasons behind this stem from particular parties' interests in widening or narrowing the definition.

There are three major classes of interest in the matter:

- Trade unions often have privileged 'coverage' of particular classes of employee and seek to ensure that coverage is as comprehensive as possible. They (and many lawyers and advisers who work with them) are, in general, opposed to workers excluding themselves from their ambit by claiming to be self-employed.
The Government, and more especially the Taxation Office, has historically been concerned at the capacity for revenue leakage by self-employed workers. These concerns have been addressed under the new Pay As You Go (PAYG) and Personal Services Income (PSI) regimes.

Self-employed people themselves and those using their services who are keen to avoid restrictions on their work flexibility and on their remuneration or productivity, and who may perceive taxation advantages in being self-employed.

Various tests used for statistical purposes were made in the past and included:

- whether the contract permits the worker to perform similar work simultaneously for other clients;
- whether the worker is free to subcontract the work, or employ someone else;
- whether the worker invoices for their work or receives wages;
- whether the payment conditions mean the worker could make a profit or loss;
- whether the worker supplies their own tools or equipment; and
- where responsibility for the payment of injury insurance premiums lies.

Source: Productivity Commission

The definition of what constitutes a contractor has been tested as a result of recent tax changes. In some respects the issue might be said to have been finalized for tax purposes by the Treasurer's determination that contractors should be allowed to self-assess their status in his determination in July 2001 (Press Release No. 51), that a contractor may so self-assess

where they derive income from producing a result, where they supply their plant and equipment or tools of trade (if required), and where they are liable for rectification.

This tax test has close similarities to that used in common law, although the courts do interpret the tests differently in individual cases.

In order to clarify the categorization, we divide the sub-categories into two components: employees and non-employees.
<table>
<thead>
<tr>
<th>Employees</th>
<th>Non-Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>employees with leave entitlements</td>
<td>Owner managers of incorporated enterprises</td>
</tr>
<tr>
<td>self-identified casuals</td>
<td>Owner managers of unincorporated enterprises</td>
</tr>
<tr>
<td>other employed persons</td>
<td>Self-employed</td>
</tr>
<tr>
<td>permanent employees</td>
<td>Own-account workers</td>
</tr>
<tr>
<td>dependent employees</td>
<td>employers</td>
</tr>
<tr>
<td>independent employees</td>
<td>independent contractors</td>
</tr>
<tr>
<td>paid by an employment agency</td>
<td>dependent contractors</td>
</tr>
<tr>
<td>labour hire employees</td>
<td>sub-contractors</td>
</tr>
<tr>
<td>Fixed-term contract employees</td>
<td>persons who invoice</td>
</tr>
<tr>
<td>Part-time employees</td>
<td>labour hire contractors</td>
</tr>
</tbody>
</table>

The latest data on non-employees' share of the workforce

**Base Case Data**

Under the standard ABS definition (6203), around 87% of working persons are classed as employees, with the rest being *employers* (3.5%) and *own account workers* (9.4%). This indicates that 13% of workers were not employees.

This ABS collection, however, is concerned with matters other than the structure of employment, and it is clear that many of the employees are not employees in the accepted sense. In determining the employment status of various people, some difficulties include:

- an ambiguity where a person is an employee of her own business;
- cases where someone is classed as an employer even though, in the vast majority of cases, such employers will also be workers in their own businesses and might indeed only employ someone part-time.

**Getting a Better Fix on the Structure of Employment**

The ABS survey published as 6359 offers the best fix on the status of workers. Under this survey, employed people as of August 1998 comprised:

- a hard core of 59% of employed persons, who were permanent employees in so far as they had annual leave and similar entitlements;
- 18% who were casual employees
- 'other employed persons' (4%);
- owner-managers of incorporated enterprises, who totalled 7%; and
- owner-managers of unincorporated enterprises (13%).
The breakdown of employment is shown in the figure below.

**Figure 1** Distribution of employed persons\(^a\) among employment types\(^b\),
August 1998

- Self-identified casuals: 17.7%
- Other employed persons: 3.6%
- Owner managers of incorporated enterprises: 7.0%
- Owner managers of unincorporated enterprises: 12.8%
- Employees with leave entitlements: 58.8%

\(^a\) Excluding employed persons who did not work for monetary reward. \(^b\) People are categorised on the basis of their main job (that in which most hours are usually worked).

*Data source: ABS (Forms of Employment, Cat. no. 6359.0).*


Under this analytical approach, 20% of workers are clearly not employees.

**Further Refining the Data**

Two aspects of Figure 1 above suggest that the 20% figure is conservative. These are the treatment of casuals and the 'other employed persons category'.

One interesting reconciliation that the Productivity Commission published was between the ABS normal workforce data on casuals and that of the Forms of Employment Survey. This showed that 3.6% of the 23% of the workforce that the ABS classed as casuals were employers or owner-managers. In other words, three out of every 20 casual 'employees' were owner-managers. More comprehensive data on this are illustrated below.

**1998 Decomposition of ABS Data on Casuals**
Even if it is assumed that the casuals are appropriately classified within the employee/non-employee categories, an analysis of the category 'other employed persons' makes it clear that they are overwhelmingly self-employed.

The most common occupations in the category were professionals (16%); intermediate clerical, sales and service workers (15%); and tradespersons and related workers (15%). The most common industries in which 'other employed persons' worked, were: property and business services (14%); construction (14%); retail trade (9%); and manufacturing (9%). Many would be in partnerships. Some of these, of course, would be 'employers' and are so classified by the ABS if they employ one or more persons full- or part-time. Such a wide notion of 'employers' is not one that resonates with current practice. Overwhelmingly, such employers are actually also employees—as illustrated in the discussion reconciling different concepts of casual worker.

This residual category therefore essentially comprises professionals and contractors. Hence, on this basis, in August 1998, 23.4% of employed persons were working for themselves as contractors or entrepreneurs. Relating this back to the Labour Force Survey of April 2002 where 9,261,000 people (seasonally adjusted) were counted as employed, there are some 2,167,000 workers who are non-employees.

**Non-Employees as a Share of the Private Sector Workforce**

Having 23.4% of the workforce in non-traditional employment—neither full- or part-time, nor casual employment—is a rather higher figure than is popularly envisaged. This share is higher still if the 1.4 million plus of government employment is excluded from the of 8.4 million people classed as being in employment in August 1998. The share of contractors and entrepreneurs in the private-sector workforce is over 28%.

---

**Trends in categories of employed people**
Although it is generally accepted that there has been a strong shift over time away from what might be called traditional employment, it is difficult to document this clearly. Excluding the category of 'other' workers (which we estimate to be overwhelmingly contractors and professionals) the Productivity Commission [1] estimated that between 1978 and 1998 there had been a four percentage point growth (from 16.4% to 20.4%) in the share of 'employers and own-account workers'. Other researchers are cited by the PC as generally agreeing that such a trend is evident.

Endnote