

# **Informal Employment and Informal Wage System in the Sydney Construction Industry**

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## **Abstract**

This processes of industry restructuring and labour market flexibility effected through pyramid subcontracting in the tiling sector in the Sydney construction industry have resulted in a major decentralisation of tile-laying production from subcontracting firms to small firms owned by 'middlepersons'. This process has encouraged informal employment. From the late 1980s, subcontractors in the tiling sector on the large unionised construction sites strengthened pyramid subcontracting and manipulated immigrants' working cultures to increase their profit. This resulted in the expansion of informal employment which forced huge wage differences between skilled and unskilled tiling workers and reduced working conditions and workers' entitlements.

## **Introduction**

The growth of an informal economy and informal employment in the tiling sector has been connected to industry restructuring and labour market flexibility. Subcontractors' reorganisation of the tiling labour process has expanded pyramid subcontracting over the past two decades. This process has resulted in a major decentralisation of production from tiling subcontractors to micro or small middlepersons' firms which have encouraged informal employment. Subcontractors in the tiling sector on the large unionised construction sites strengthened pyramid subcontracting and manipulated immigrants' working cultures to increase their profit since the late 1980s.

The central objectives of this paper are to examine how the changing labour process within the pyramid subcontracting structure encouraged an informal employment system and how the reformed system influenced tiling workers' wages and working conditions. To achieve these objectives, this paper focuses on the unionised tiling sector in the Sydney construction industry to analyse informal employment relations between subcontractors, Korean middlepersons and Korean tiling workers. In doing so, this paper firstly outlines the concept of the informal economy and informal employment. Secondly, it explores traditional production arrangement. Thirdly, the paper analyses the current division of labour in the tiling sector. Fourthly, formal and informal employment and dual wage system are explained and, finally, the system of informal wage setting and wage differentiation is detailed.

## **Concept of Informal Economy and Informal Employment**

The informal economy, representing an important part of the economy and the labour market in developing countries, can play a major role in employment creation, production and income generation (Becker, 2004: 45-46). However, since the 1970s the growth of the informal economy in developed countries has been connected to industry restructuring aimed at bypassing the structural crisis of producing material benefit (Castells and Portes, 1989: 27-29).

The most accepted definition of the 'informal economy' is where income-earning activities are unregulated by the state in the same context that similar activities are regulated by the state (Castells and Portes, 1989: 12). It is important to note that the informal economy does not include illegal drug-dealing and other criminal activities. Thus the economic activities of the informal economy are legal activities that are carried out illegally by avoiding one or more applicable state regulations (Roberts, 1994: 7), for instance taxation or superannuation laws.

The 'informal sector', as a concept, has been much debated since the phrase was established in relation to developing countries in the early 1970s. The International Labour Organisation (ILO) (1972) and Hart (1973) conceptualised the duality of urban organisation in terms of 'formal' and 'informal sectors'. The ILO characterised the 'formal sector' as large-scale production, incorporation and the use of capital-intensive technologies. In contrast, it identified the 'informal sector' as small-scale, labour-intensive enterprises, family owned, unregulated and competitive markets (ILO, 1972: 6). In the national context of Ghana, Hart (1973: 67) conceptualised the dualist interpretation of urban organisation as the 'formal' and 'informal sectors'. Using the individual worker as the basis of classification, he equated 'formal' with wage-earning jobs and 'informal' with self-employment, thereby setting the stage for a dualist interpretation. In contrast to Hart's emphasis on the individual, the ILO's focus was exclusively on units (or enterprises). In 1993, the fifteenth International Conference of Labour Statisticians (ICLS) defined the 'informal sector' using an enterprise approach as the ILO did in 1972 (Husmanns, 2004: 1).

To expand the coverage of the definition, the ILO captured all types of 'informal employment' as being comprised of the following two components: employment in the 'informal sector' as defined by the fifteenth ICLS and forms of informal employment outside the informal sector (Husmanns, 2004: 2). In recent years, some policy makers and researchers, both within and outside the ILO, have started to use the term 'informal economy' for a broader concept that includes certain types of 'informal employment' which were not included in the 1993 international statistical definition of the 'informal sector'. They incorporate in this concept the whole of informality including both enterprises and relations which are visible in developed, transition and developing countries (ILO, 2002: 11). In the expanded concept, the 'informal economy' comprises 'informal employment' without workers' entitlements, secure contracts and social protection both inside and outside informal enterprises (ILO, 2002: 12).

### **Traditional Production Arrangement in the Tiling Sector**

Traditionally, tile-laying jobs were completed by highly skilled tile-layers. A floor and wall tile-laying book published by the Commonwealth of Australia in 1947 regards a tile-layer as a craftsperson "who has completed mastery over tools and materials and who uses them with skill and honesty" (Commonwealth of Australia, 1947: 1). This tradition was sustained by tiling sector awards prior to the early 1990s and the Enterprise Bargaining Agreements (EBAs) from the mid 1990s, between the tiling subcontractors and the Tile-layers Union of New South Wales (TUNSW) and the current Construction Forestry Mining and Energy Union, Construction and General Division, NSW Branch (CFMEU), as the key component of the formal tile-laying arrangement. Contrasting with the above, the current notion of a tile-layer is less holistic and more utilitarian as indicated in the following EBA definitions: "[a] tile-layer means a person, working as an employee or

engaged by a company as a self-employed contract worker, to lay wall and floor tiles and do associated work” (CFMEU, 1997: 3).

In the mid twentieth century, tiling subcontractors employed apprentices who learned tile-laying skills from skilled tile-layers during on-the-job training and usually attended tiling courses at a Technical and Further Education (TAFE). They also employed labourers who delivered all materials to tiling sites. In this way, the traditional and formal roles of skilled tile-layers, apprentices and labourers were clearly classified, as shown in Table 1.

**Table 1: Traditional and Formal Employment Classification and Key Roles**

Classification	Key Roles	Employer
Skilled Tile-layer	Performing all tile-laying tasks from preparation to the final task of grouting and associated work	Subcontractor
Apprentice	Learning tile-laying skills and assisting several skilled tile-layers	Subcontractor
Labourer	Delivering all materials to the tile-laying work sites	Subcontractor

Source: CFMEU (1997: 3)

### **Current Division of Labour in the Tiling Sector**

Commencing in the late 1980s, it became common for subcontractors to sublet tile-laying tasks mainly to Korean middlepersons, in order to enhance their profit by lowering the contract rates of pay. So as to maintain or increase their profit, given the low contract rates of pay, Korean middlepersons introduced a form of team work which subdivided the previously holistic tile-task into several tasks by narrowing each tiling worker’s role in the overall tile-laying arrangement, as shown in Table 2. Up to ten different types of worker replaced the previous three types of worker in a far more fragmented tiling process.

These changes have redefined the status and power of management, subcontractors and middlepersons, and skilled and low-skilled tiling workers in the labour process. This in turn has influenced their income and payment and the dimension of autonomy. Within this ‘pyramid subcontracting’ structure, middlepersons and leading hands could increase their autonomy and power while labourers’ autonomy and power was severely diminished.

### **Formal and Informal Employment and the Dual Wage System**

Managers in the Australian construction industry have weakened workers’ position by subcontracting, in order to increase their control over the labour process. In particular, the subcontractors in the unionised tiling sector in the Sydney construction industry have implemented differing labour market flexibility policies for tiling workers from varying ethnic backgrounds.

Subcontractors’ reorganisation of the tiling labour process has expanded pyramid subcontracting by elongating the subcontracting chain. The subcontractors have continued to provide materials, including tiles, to builders in order to produce their profit (as they can add a cost-plus margin to materials). At the same time, in the unionised

**Table 2: Employment Classifications and Key Roles of Male Tiling Workers under Pyramid Subcontracting**

Classification	Period of Experience	Key Roles	Criteria Competency for Skill Level	Employer
Labourer 1	0-1 month	Cleaning sites or delivering materials. Pouring sand and cement to assist labourer 2 to mix cement and sand to make mortar.		Middleperson
Labourer 2	1-3 months	Cutting floor and wall tiles after a skilled or semiskilled tile-layer drawing on the tiles. Making mortar with assistance from labourer 1 or without. Mixing grouts and starting grouting.	Ability in to cut wall-tiles (Skill Stage I)	Middleperson
Labourer 3	3-4 months	Grouting. Laying wall tiles, once a skilled tile-layer has installed the bottom layer of wall.	Ability to lay wall-tiles with minimal help (Skill Stage II)	Middleperson
Labourer 4	4-6 months	Laying wall-tiles without any assistance, following a pattern marked on a wall by a skilled tile-layer.	Ability to lay wall-tiles without assistance (Skill Stage III)	Middleperson
Labourer 5	6 months-1 year	Performing labourer 4 role, with speed and accuracy.		Middleperson
Semiskilled tile-layer	1 year-2 years	Laying floor tiles after a skilled tile-layer's screeding. Laying piece tiles after a skilled tile-layer's laying whole tiles. Starting to draw on tiles to cut.	Ability to lay floor tiles. (Skill Stage IV)	Middleperson
Tile-layer skill level 1	2 years-2.5 years	Starting to screed bathroom floors with mortar of sand and cement as preparing for floor tile-laying.	Ability to screed floor with mortar (Skill Stage V) for small space areas	Middleperson
Tile-layer skill level 2	2.5 years-3 years	Performing the role of level 1 tile-layer with speed and accuracy.		Middleperson
Tile-layer skill level 3	3 years-5 years	Commencing planning of bathroom floors and walls.		Middleperson
Leading hand	5 years+	Planning all tile-laying. Screeding for floor tile-laying. Supervising and fixing all defects in the work of less skilled tiling workers, before the firming of glue. Trying to maintain zero defects.	Ability to do all tile-laying tasks (Skill Stage VI)	Middleperson

Source: Korean Tile-layers and Middlepersons, Interview (January, 2004 to July, 2006)

tiling sector, subcontractors have increased subletting the tile-laying tasks to Korean middlepersons within the pyramid subcontracting structure in order to maximise their profit by minimising their financial costs. Furthermore, pyramid subcontracting has been a key factor in generating disparate wage settings, which are determined by both formal and informal mechanisms.

### **Informal Wage Setting and Wage Differentiation**

Despite a strongly-held CFMEU principle of wage equity for all construction workers, the union has recognised that tiling work is easily quantified (square metres), providing a method for calculating the amount of tiling work. Thus, tiling subcontractors' prefer to use contract rates of pay for middlepersons through the pyramid subcontracting system, which has the effect of extending informal employment. This process results in the externalisation of labour costs, as well as the externalisation of risks and responsibilities.

The informal wage system in the unionised tiling sector has emerged out of the reorganisation of the labour process and the deployment by the subcontractors and middlepersons of new immigrant tiling workers. This informal wage system has encouraged informal skill formation and tax evasion. Few Korean tiling workers were employed on a permanent wage basis by tiling subcontractors in the unionised construction sites under the EBAs. In fact, more than 90 per cent of Korean tiling workers were employed on a daily wage which resulted in a high proportion of casual tiling workers within the informal employment (Shin, 2002: 151). Most Korean tiling workers did not receive the entitlements provided by Awards and EBAs, as they were often unaware of Australian workplace regulatory arrangements.

Interestingly, the Korean tiling workers' wage is based on performance, with a strong focus on efficiency. The wage levels are much more detailed than the wages in EBAs. For example, in the Sydney Korean community, the wage difference between Labourer 1 and Leading Hand could be more than AUD1,000 per week, as shown in Table 3. This represents extreme wage differentiation compared to the difference of AUD50 in the EBAs, as shown in Table 4.

**Table 3: Tiling Workers' Wages on Cash-in-hand Basis in the Sydney Korean Community in 2004 (AUD)**

Wage Categories	Skill Stage	Period of Experience	Daily Wage	Net Wage in Cash (5 day week)
Labourer 1		(0-1 month)	100	500
Labourer 2	I	(1-3 months)	110	550
Labourer 3	II	(3-4 months)	120	600
Labourer 4	III	(4-6 months)	130-140	650-700
Labourer 5		(6 months-1 year)	150-160	750-800
Semi-skilled	IV	(1 year-2 years)	170-180	850-900
Skilled 1	V	(2 years-2.5years)	190-200	950-1,000
Skilled 2		(2.5 years-3 years)	210-250	1,100-1,250
Skilled 3		(3 years-5 years)	260-290	1,300-1,450
Leading Hand		(5 years +)	300 +	1,500 +

Source: Shin *et al.* (2004: 19)

Under this system of informal employment, labourers receive a very low wage because the Korean middlepersons do not pay labourers according to how much time they spend working on the job. Rather, the middlepersons pay a labourer by

calculating the amount that the labourer has improved the performance of the skilled tile-layers (Shin *et al.*, 2004: 19).

For example, a skilled tile-layer working unassisted might be able to complete 30 square metres of tiling per day. However, with the assistance of a labourer, a skilled tile-layer might complete 40 square metres of tiling per day. In this case, the labourer would only receive one quarter of the pay of the skilled tile-layer, rather than a fair and reasonable daily wage as in the EBAs. In general, Korean middlepersons consider a level 1 Labourer unable to add AUD100 value per day to the total performance of this two-person arrangement – that is, a skilled tile-layer and a level 1 Labourer. The Korean middlepersons argue that AUD100 is an excessive payment for a labourer’s work but are forced to pay labourers AUD100 per day, as it is difficult to find labourers who will work for less than this amount.

Labourers can earn a slightly higher wage if they are able to complete their tasks more efficiently as this allows the skilled worker to complete the tiling job more quickly. Some of the labourers’ tasks include clearing the work site and carrying tools and materials to and from the site. If the labourer can complete this quickly then the tiling team becomes more efficient.

**Table 4: Wage and Tax (for 5 days) including site allowance in the EBA in NSW in 2004 (AUD)**

Wage Categories	Wage		Tax	Net Wage
	Daily	Weekly	Weekly	Weekly
Labourer	241.40	1,207.00	346.00	861.00
Skilled	252.00	1,260.00	350.00	910.00

Source: Bettertiles Contracting Pty Ltd and CFMEU (2003: 24)

In the Korean community, in order to advance to a higher wage level, the worker must be able to complete specific tasks which will improve the performance of the team. The tile-layer’s skill criteria are categorised into five different stages, as outlined below :

- I. ability to cut wall tiles and grout wall and floor tiles;
- II. ability to lay wall tiles with minimum help from skilled tile-layers;
- III. ability to lay wall tiles without any assistance;
- IV. ability to lay floor tiles; and
- V. ability to screed floors with mortar (sand and cement)

When tiling workers are able to complete wall tile cutting and grouting correctly, they have reached Skill Stage I and earn AUD110 per day as Labourer Level 2. If Labourer Level 2 then learns how to do wall tile-laying after a skilled tile-layer installs the bottom layer of wall tiles, they have reached the Skill Stage II and can earn AUD120 per day as a Labourer Level 3, as shown in Table 3. It is interesting to note that the skill of wall tile-laying is normally considered easier than floor tile-laying, because it is completed with the glue-down method, rather than the sand and cement mortar method.

Labourer Level 4 tiling workers are required to lay tiles on walls, without any assistance from skilled tile-layers, which represents Skill Stage III. They are also required to cut flow-waste for showers and help cut floor tiles. Labourer Level 4 tiling workers can increase their wage if they complete these tasks quickly. Labourer Level 4 and Labourer Level 5 tiling workers are differentiated according to their speed and accuracy.

Advancement to the level of a semi-skilled worker is very important because the tiling worker is able to install tiles on the floor without assistance, after a skilled tilers' screeding with cement and sand mortar, which represents Skill Stage IV. In most cases, tile-layers work for approximately one and half years before they pass the semi-skilled level under the self-taught training system unique to the Korean community's informal skill formation within the pyramid subcontracting structure.

To qualify for the Skill Stage V, tile-layers must be able to screed a floor with a mortar of sand and cement, which is the most important skill, as it distinguishes skilled workers from semi-skilled workers. Floor screeding is important because accurate floor level is the key component for good quality floor tile-laying. If tile-layers reach the Skill Stage V, usually after two and a half years' tiling experience, they can earn AUD200 per day as a Skilled 1 tile-layer, as shown in Table 3. However, some workers may not reach this stage until they have gained three or four years' experience.

The method used to decide tiling workers' skills and wage level in the Korean community are far more focused on efficiency than on the traditional CFMEU equity approach which underpins wages shown in Table 4. Immigrant Korean tiling workers are accustomed to a wage payment system in their home country which usually pays wages on an untaxed daily cash-in-hand basis and without any additional workers' entitlements, rendering them amenable to a bare-wage arrangement in the immigrant-dominated Sydney tiling sector. In contrast, local Sydney workers on unionised construction sites also gain superannuation (a minimum nine per cent of wages), redundancy payments (six per cent of wages), site allowances (five per cent of wage) and four weeks' annual leave and are required to pay income tax. Furthermore, there is no difference in wages between legal and undocumented workers under the Korean-style wage system operating in Sydney's tiling pyramid subcontracting system. Legal status has no direct impact on the wage rate under the very heavily performance-based pay system in the tiling sector in the Sydney construction industry.

## **Conclusion**

This paper has outlined how, over the past two decades, subcontractors' reorganisation of the tiling labour process has expanded pyramid subcontracting. It revealed that growth of the informal economy and informal employment in the tiling sector has been connected to industry restructuring. This process has resulted in a major decentralisation of production from tiling subcontractors to micro or small middlepersons' firms which have encouraged informal employment. Subcontractors in the tiling sector on the large unionised construction sites strengthened pyramid subcontracting and manipulated immigrants' working cultures to increase their profit from the late 1980s.

This resulted in the expansion of informal employment which forced huge wage differences between skilled and unskilled tiling workers. Different wage levels and extended divisions of labour exist in the tiling sector, according to skill-levels. This pyramid subcontracting system also relies mostly on performance-based pay which produces an inequitable wage system. With their powerful hegemonic position, subcontractors are able to avoid many of their responsibilities. They have captured a large amount of unfair income by avoiding payment of the industry standards of workers' entitlements including portable superannuation, portable redundancy payments and site allowances in the unionised tiling sector.

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## Interview

27 Korean Tile-layers and Middlepersons were interviewed from January, 2004 to July, 2006