



Implications of COVID-19 for the Indigenous labour market

Yonatan Dinku¹, Boyd Hunter² and Francis Markham³ (^{1,3} Research Fellow, Centre for Aboriginal Economic Policy Research (CAEPR), ² Professor, Centre for Social Research and Methods, Research School of Social Sciences, College of Arts & Social Sciences, Australian National University).

This brief is part of Supply Nation's research activities within its Knowledge Hub – supporting the growth and long-term viability of the Indigenous business sector.

1. Introduction

The medical and policy response to COVID-19 has focussed on the containment of the virus, including active surveillance, contact tracing, quarantine, and early strong social distancing efforts needed to limit transmission. The response to the virus has led to a substantial economic disruption. The net effect on the Australian economy has been a sharp decline in national economic activity, which is likely to be exacerbated by the inherent uncertainty of the health crisis and the ongoing need for further containment for a second wave of outbreaks. This ongoing uncertainty will amplify the economic uncertainty inherent in recessions. The global nature of the pandemic and the evolving geopolitical environment may affect international trade for a number of years.

Macroeconomic shocks can affect the Indigenous labour market in a number of ways. The primary effect is through the depressed aggregate demand that leads to fewer jobs. Labour market scarring that occurs in a recession may lead to atrophying of skills through the lack of use in the workplace and the poor quality of matches between job seekers and jobs as some workers stay in jobs to which they are unsuited. However, Indigenous workers also experience racial discrimination and historical social exclusion, which reduces the prospect of re-entry into the labour market following a recession and increases exits from employment and turnover between jobs that reduce the ability to build up labour market experience.

It is reasonable to anticipate a substantial increase in the number of discouraged Indigenous workers after a COVID recession.

2. Why COVID-19 might affect the Indigenous labour market?

The historical disadvantage and exclusion mean that Indigenous people are concentrated in particular sectors or industries, particularly those that disproportionately include low-skilled, poorly-educated workers and other marginalised groups. Another characteristic of Indigenous workers is that they tend to be much younger than the rest of the Australian workforce, reflecting the relatively youthful structure of the Indigenous population. Indigenous workers are also disproportionately likely to hold casual or temporary employment contracts. If workers in these sectors and those holding less secure employment contracts are disproportionately affected by COVID-19, then Indigenous unemployment and participation may be particularly sensitive to the change in macroeconomic conditions.

As Australia enters a COVID-19 induced recession, another possible factor driving differences in labour market outcomes of Indigenous and other Australians is discrimination. Recent research has emphasised significant widespread unconscious bias against Indigenous Australians (Shirodkar 2019).



Regardless of whether or not discriminatory behaviour and attitudes are conscious, they have profound labour market effects.

Another important dynamic that may disadvantage Indigenous jobseekers is the crowding out of Indigenous employment opportunity in the low-wage sector. This may occur because more non-Indigenous job seekers are competing for scarce jobs with an influx of educated and skilled job seekers who have lost their employment in the recession.

Unemployment will also lead to diminished competitiveness in the labour market that may harm the capacity of individual job seekers to secure a suitable job in the future. De Fontenay et al. (2020) provide evidence that these scarring effects can even occur when there is no recession, just a sustained period of weakness in sectors of the labour market that is reflected in low occupational mobility.

Borland (2020) argues the young are always hardest hit during economic downturns—needing to make the transition from education to work at a time when there are few new jobs on offer. Other reasons identified by Borland for the disproportionate effect on youth are: that a sizable group of older workers are likely to delay retirement to rebuild their superannuation balances; and that the young account for a disproportionate share of workers in industries being most affected by COVID-19 shutdowns, such as hospitality and retail trade. Third, the young are also a large proportion of casual employees who have been in their jobs for less than 12 months.

Borland also argues that structural mismatch is likely to be a particular problem in a COVID recession. First, both increases and decreases in labour demand are happening at the same time across different industries. Second, the decrease in labour supply is likely to be spread across industries. While extra workers are needed in some industries as a result of increased production activities, there will be a surplus of workers in other industries. The litany of potential issues for the Australian labour

market arising from the pandemic include supply chain effects, structural mismatch, long-run adjustment and factor mobility constraints (internationally and domestically).

Hunter and Gray (2012) identified that the Indigenous labour market did improve slowly during a long period of economic growth after the 1990s, but the employment growth was not sufficient to close the Indigenous/non-Indigenous gap in employment and labour force participation. We have good reason to expect that the decline in Indigenous employment and participation associated with the COVID-recession will be larger than that experienced by other Australians after the 1990s recession because:

- Indigenous people are disproportionately young;
- concentrated in casual and other jobs with limited prospects;
- have low levels of educational or other labour market endowments; and
- experience discrimination.

3. How the COVID-19 recession is relevant in the Indigenous labour market?

Even before the pandemic, there was a particularly high rate of social security receipt among Indigenous Australians that reflects the ongoing relatively low level of employment. Administrative data from the early stages of the pandemic indicate substantial and disproportionate increases in Indigenous unemployment and underemployment.

ABS (2020) on weekly payroll jobs and wage statistics provide a direct insight into the likely short-term impacts of COVID-19 by analysing the industries that lost most jobs after 14 March 2020. Based on industry-specific job loss rates, industries are ranked in three categories: most-affected, moderately-affected and least-affected industries. The Indigenous workforce is three percentage points more likely than the non-Indigenous workforce to be in the most affected industries. The majority of



Indigenous workers in the most-affected industries are casually employed (60%), compared to 39% and 30% in either the moderately and least affected industries. Within the most affected industries, Indigenous workers are substantially more likely to be casual than their non-Indigenous counterparts (60% and 48% respectively, a differential of 12 percentage points).

Given the structure of the JobKeeper program effectively excludes short-term and casual employment, it is reasonable to expect that Indigenous workers will be more disadvantaged by the pandemic than non-Indigenous workers. Furthermore, the longer-term effects of a COVID-19 recession is likely to be pronounced for Indigenous workers given that casual workers are the most likely group to lose their work in any downturn. Indigenous workforces in the most-affected industries are more likely to be female (68%) and have high concentrations of young workers, with over 50% of workers aged between 15 and 24. To some extent, this reflects the casualisation of the workforce in those industries, but it underscores the importance of understanding the phenomenon of labour market scarring.

The short-term outcome of these cumulative risks can be seen in the social security data. Between February and May 2020, the proportion of the Indigenous working age population receiving an unemployment payment increased by 7.5% (reaching 26.3%). The same measure in the non-Indigenous population increased by only 4.8% (reaching 9.3%).

4. COVID-19 and Australian business

Much of the focus of Australia's policy response to COVID-19 is on the relationship between employers and employees. Hunter (2015) demonstrates that Indigenous businesses are particularly important for Indigenous employment since they are up to 100 times more likely to employ Indigenous workers than other Australian businesses. At least until the

COVID-recession, the Indigenous business sector has been growing rapidly. However, Hunter (2015) also demonstrates that Indigenous businesses are disproportionately concentrated in small to medium enterprises that may be particularly affected by a long COVID recession, especially if it compromises cash flow and liquidity of the firm.

The peak organisation for Indigenous businesses, Supply Nation, conducted a survey of members in the early stages of the COVID shutdown. Quantitative and Qualitative data were collected from 49 Indigenous businesses, who responded to the invitation to participate. Consistent with expectations, around 85% of the verbatim responses on the revenue impact of COVID-19 were negative; while 68% of response on the business impact of COVID-19 were negative. In terms of businesses operating over the next six months, 45% of responses were negative, with 78% indicating 'cashflow' as key.

Indigenous employment, like all employment, is driven by the location of businesses. Even though Indigenous people are more likely to live in regional and remote areas, most Indigenous businesses are concentrated in east coast urban areas where the labour and product markets are most developed. This asymmetry between the distribution of jobs and the distribution of the Indigenous population has important implications for the long-run or persistent effects of COVID-19.

5. Long-run/persistent effects of COVID crisis

Recessions tend to be periods of concentrated structural change and even social change in the labour market. For example, labour supply interacts with labour demand to produce labour market scarring and discouraged workers. As discussed above, there are several reasons to expect the Indigenous population to be particularly affected by the COVID recession in the long run, including:

- Historical social exclusion;
- Sectoral concentration;



- Ongoing discrimination; and
- The discouraged worker effect.

Some commentators see one of the positive effects of COVID-19 has been the productivity effects of behavioural change in the labour market with the widespread usage and adoption of IT and telecommuting. The digital divide between Indigenous and non-Indigenous internet access is going to be an important dynamic in Indigenous disadvantage (Hunter & Radoll 2020). In 2016, Indigenous access to the internet was lower than non-Indigenous access in all parts of the Australian continent. Even in the south-east corner of Australia, where the differential was smallest, there is a substantial gap in the internet access of up to 10%.

Indigenous workers were 2.4 times less likely than non-Indigenous workers to be working from home on Census day in 2016 (2.2% as opposed to 5.3%). If

the labour market pivots towards telecommuting technology, this could exacerbate the employment disadvantage that is already emerging for Indigenous jobseekers in the first six months of the pandemic.

The need for broader social isolation has led to some schools being closed down and an explicit shift to remote learning. Given the large digital divide between Indigenous and non-Indigenous Australians, there is substantial risk for the equitable distribution of education and training and further foreclosing future labour market options for Indigenous Australians. If the COVID-19 unwinds the labour market gains in closing the gaps between Indigenous and non-Indigenous Australians, this may presage the need for a more radical approach to Indigenous economic policy that takes into account persistent issues such as long-term social exclusion and discrimination.

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