Revisiting the Relationship Between the Macroeconomy and Indigenous Labour Force Status

Boyd Hunter¹

Almost 20 years ago, an article in *Economic Papers* by Altman and Daly asked “Do fluctuations in the macroeconomy influence Aboriginal employment status?” This paper revisits this question in view of recent evidence. Indigenous people are more likely than before to be employed in industries similar to that of other Australians, and hence are less insulated from the business cycle. The greater engagement in the Australian economy is not something to be feared as it means that Indigenous employment will eventually respond to sustained macroeconomic growth. Indeed, Indigenous employment in the private sector converged rather quickly to the Australian average over the ten years of buoyant economic conditions between 1996 and 2006. Economic slow-downs do circumscribe the ability to improve Indigenous employment outcomes, but this simply means that educational and training investments become even more important in ensuring that Indigenous people are in a competitive position once economic growth picks up again.

Keywords: Indigenous employment, segregation, discouraged workers, public policy, closing the gap.

1. Global financial crisis, the national economy and Indigenous Australians

The business cycle obviously involves aggregate phenomenon like unemployment and inflation, but recessions can have a disproportionate influence on certain subpopulations. This paper attempts to tease out the effect of macroeconomic conditions on employment and unemployment for one small segment of the national population, Indigenous Australians. Like other disadvantaged minorities, they may be particularly susceptible to the prospect of large increases in unemployment and reductions in national wealth, but with a few exceptions such issues have been rarely discussed.

The prominent exception to this rule is Altman and Daly (1992b) who explicitly asked: “Do fluctuations in the macroeconomy influence Aboriginal employment status?” They argue that the increase in publicly funded Indigenous employment between 1971 and 1991 partially insulated Indigenous workers from macroeconomic influences. However, the trends in publicly funded Indigenous employment has reversed in recent years with substantial declines in the Indigenous

¹Centre for Aboriginal Economic Policy Research, The Australian National University, Canberra, ACT, Australia.

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Correspondence: Boyd Hunter, Centre for Aboriginal Economic Policy Research, The Australian National University, Canberra, ACT 0200, Australia. Email: boyd.hunter@anu.edu.au

public sector employment associated with the dismantling of Aboriginal and Torres Strait Islander Commission and the slow decline in Indigenous employment in the federal public sector (e.g. Commonwealth of Australia 2007). One reason for the latter is the increased reliance on graduate recruitment in the federal public service that institutes a bias against Indigenous employment. Despite recent improvements in Indigenous educational attainment and participation, such changes have not kept up with those observed for other Australians (Altman *et al.*, 2009). The gap in the incidence of graduate qualifications between Indigenous and other Australians is substantial and show no sign of disappearing in the near future. Indeed, Altman *et al.* (2009) used data from the last three censuses to show that, according to these trends, it will be at least one century before the proportion of the respective populations with a degree level qualification are equal.²

Obviously, changes in the Indigenous economic activity are not going to affect the macroeconomy significantly – however, broader economic factors and macroeconomic behavioural patterns may drive Indigenous economic activity. In order to understand the likely effect of macroeconomic outcomes on Indigenous workers, it is essential to understand the extent to which Indigenous labour market outcomes are driven either by the behaviour of employers or the preferences and resulting behaviours of the Indigenous workforce – economists call such influences as demand- and supply-side factors respectively.

The next section rehearses some of the likely theoretical effects of the business cycle on Indigenous labour force status, especially the discouraged worker and additional worker hypotheses. The following section examines the relative role of demand and supply factors in order to explore the extent to which Indigenous employment is independent of macroeconomic forces. The final section examines the implications of macroeconomic factors for the Australian Employment Covenant and policy objectives of “closing the gap” in Indigenous employment outcomes from the prospective onset of adverse economic times.

2. The Dynamics of Indigenous Employment and Unemployment: The Discouraged Worker Versus the Added Worker Hypotheses

In economic theory of job search, there are two wage levels that determine whether people look for work. The first is the labour supply reservation wage – the wage rate below which the person would not accept a job. The second is the search reservation wage below which the person will not search for work, even if they are willing and available to work. If there are search costs, then the search reservation wage will be greater than the labour supply reservation wage. Workers who are marginally attached to the labour market are constrained participants who choose not to search for employment because their perceived benefits from search fall short of the cost. For these individuals, a fall in the costs of job search or an increase in the probability of success from job search would mean that they would start actively searching for employment.

The costs and benefits of searching for work are both affected by the level of labour demand, which in turn is heavily dependent upon the overall economic activity in both the Australian economy and the local labour market. The main avenue by which such factors affect job search is through the effect on probability of employment (and unemployment) in the relevant sectors of the labour market. Other factors also come into the individual calculus of the value of job search, including the level of welfare or alternative income sources *vis-à-vis* the wage offered (Daly and Hunter, 1999) and the aggregate number of job vacancies in the economy at large.

Such ideas have a long history in labour economics. Empirical studies of the aggregate relationship between the labour force participation rate and the unemployment rate date back to the 1940s (Gray *et al.*, 2002). Woytinsky (1940) developed the “additional worker theory” that suggests that the participation rate should increase during recessions because there would be an influx of “fringe” potential workers as family income needs to be supplemented following unemployment of the “breadwinner.” In contrast, Long (1958) and Humphrey (1940) argued that the

²This estimate is based on the assumptions that the improvements in both Indigenous and non-Indigenous outcomes measured between the 1996 and 2006 censuses continue at the same rate.

unemployed become discouraged during a recession due to the diminished likelihood of finding employment and consequently exit the job market – that is, the “discouraged” worker effect. Looking for work has such a low expected pay-off that such people decide that spending time at home is more productive than job search.

McConnell and Brue (1992) argued that the discouraged worker effect should outweigh the added-worker effect because it generally applies to more people. For example, if the household unemployment rate rises from, say 5–8 per cent, only those 3 per cent or so of all families who now contain an additional unemployed member will be subject to the added worker effect. On the other hand, worsening labour market conditions may have a discouraging effect upon actual and potential labour force participants in all households (McConnell and Brue, 1992, p. 71).

Recent Labour Force Survey (LFS) data seem to indicate that there is a net added-worker effect evident with both national unemployment and labour force participation increasing in recent months (ABS 2010b). This can be rationalised by the fact that wealth and incomes are likely to have fallen by more than the probability of finding work and hence the incentive to supplement family income dominates. However, in the long-run, one would expect the increased probability of unemployment to dominate and the discouraged worker effect will become more evident. One caveat to this prediction is that the ongoing enforcement of policy requirements that most welfare recipients look for work, under the mutual obligation framework, puts a floor under the number of people who will officially indicate that they not looking for work.

The official ABS definition specifies that a discouraged worker must be available to work within four weeks (but are discouraged from looking for work by the lack of suitable/available jobs). Unfortunately, the publicly available data for Indigenous population does not contain direct information on the availability to start work. Consequently, the existing estimates of Indigenous discouraged workers are defined as those who want to work but are not actively looking for work (Hunter and Gray, 2001). Using this broad definition, Indigenous males are almost four times more likely than other Australian males to want work but are not be actively looking for work (15.8 as opposed to 4.2 per cent). Indigenous females are almost three times more likely to be discouraged workers than are non-Indigenous females (29.3 as opposed to 10.0 per cent). Although these estimates are somewhat dated, as they are based on 1994 data, they demonstrate that one should not discount the possibility that discouraged workers will be a significant issue for Indigenous Australians in the current downturn.

Hunter and Gray (2001) described some of the issues for determining whether individual Indigenous jobseekers look for work. In addition to the role of business cycle factors, the list of factors that influence whether a person is discouraged worker include: a range of personal characteristics (e.g. age; skill level; difficulty in speaking English), relationship status, combined with number and age of dependent children, the wage and non-wage each partner can command in the labour market, housing tenure and social environmental factors. Voluntary work appears to complement participation in the mainstream labour market of Indigenous jobseekers by cultivating a “culture of work,” hence increasing the awareness of what it takes to secure and keep a job. It is worth noting that geographic factors were not statistically significant, so the likelihood of being a discouraged workers are not sensitive to locational factors or local regional labour market conditions (in remote Australia or elsewhere).

Underemployment has arisen as a prominent issue over the last three decades with the sustained national growth in part-time employment. In 1994, the incidence of part-time employees who would prefer to work longer hours (the underemployed) was particularly evident among Indigenous employees – with 19.5 per cent of female workers and 25.3 per cent of male workers indicating that they would prefer to work more hours (Hunter, 2002). Hunter (2002) also showed that the Indigenous underemployed work about eleven hours less per week than Indigenous employees who are unconstrained in the number of hours they work. Not only do the underemployed have difficulty in finding enough work, but they were also less likely to be working for continuous periods. For example, the underemployed being more likely to be working in any available job – including casual or seasonal jobs – rather than being matched with their optimal job.

Underemployment increases substantially in adverse macroeconomic climates where aggregate demand is weak (e.g. 1990–1992 and 2008–2009; ABS 2010a).

This analysis of the discouraged workers and underemployment among Indigenous people points to a role for demand-side factors, but it must be acknowledged that it is extremely difficult to effectively separate out supply- and demand-side factors. For example, educational attainment is widely believed to not only increase the individual productivity, but may also increase the desire to work by, *inter alia*, increasing the opportunity costs of not working. Notwithstanding these analytical difficulties, long-term policies that augment the demand for Indigenous workers, such as effective education and regional development policies, are likely to substantively improve Indigenous labour force status.

3. Demand for and Supply of Indigenous Workers

An obvious starting point for analysing the macroeconomic influence on Indigenous labour force status is to chart trends in both national and Indigenous unemployment, employment and participation rates. One convention is to express unemployment as a per cent of the labour force, but it is important to identify the distinct contribution of each labour force state – accordingly all three are expressed as a percentage of the population aged 15 and over. In what follows, the national data are taken from the monthly LFS; whereas Indigenous data are taken from the respective censuses and special Indigenous estimates from the LFS (Altman *et al.*, 2009; ABS 2010b,c: Indigenous LFS estimates aggregated over the whole year).

One crucial measure of the business cycle is the national unemployment rate. Figure 1 illustrates the marked cycles in the LFS national estimates with recessionary unemployment peaks in 1982, 1991 and late 2008. If Indigenous workers are particularly sensitive to the business cycle, then you would expect Indigenous unemployment to increase by more than the national unemployment rate. Figure 1 illustrates that over the long-run Indigenous unemployment has converged to the national aggregates (Altman *et al.*, 2009). The substantial improvement in Indigenous unemployment is due to an overall increase in economic engagement, partially manifest in the rise of the publicly funded Community Development Employment Projects (CDEP) scheme since 1977. The CDEP scheme offers paid employment, often part-time jobs, for participants in lieu of unemployment benefits that would otherwise be paid at the community level.

Figure 1. Unemployment Population Ratios for Indigenous and All Australians

Source: Monthly LFS and census data (ABS cat. nos 2020.0 and 6202.0)

Unfortunately, census data are only collected once every five years and hence it does not adequately capture changes over the business cycle and hence this chart also includes labour force data for the Indigenous Australians that is available from 2005. Census data represent the whole population and hence are highly reliable. The labour force estimates are subject to sampling error and hence 95 per cent confidence intervals are represented for the Indigenous population. Technically, one could also provide confidence intervals for the overall labour force estimates for Australia, but these are relatively consistent and small *vis-à-vis* the Indigenous estimates and hence they are omitted from the following charts (however, the line drawn is rather thick to roughly approximate the confidence intervals for Australian estimates). Note that despite the substantial difference in collection methodologies of the census and the LFS, the 2006 census is within the conventional confidence limits.

Hunter and Gray (2001) identified the cross-sectional importance of discouraged worker effect, but Figure 1 illustrates that Indigenous unemployment has increased by substantially more than the aggregate increase in unemployment. This is *prima facie* evidence that we should be concerned about the sensitivity of Indigenous labour force status over the business cycle.

One confounding issue is that the CDEP scheme, which was at a “high water mark” in 2006 with over 35,000 participants Australia-wide (Steering Committee for the Review of Government Service Provision, 2009, p. 4.69). The Rudd government committed to radically reform, arguably dismantle, the scheme by July 2011 with all remaining CDEP participants (currently in the order of 15,000 people) will be transitioned off CDEP wages and onto unemployment benefits. The recent decline of the CDEP scheme is consistent with the changes in both Indigenous unemployment and employment (see Figures 1 and 2).

The long-run trend in Indigenous employment is positive with a marked convergence to the norms for the rest of the Australian population. Altman *et al.* (2009) ascribed a substantial portion of this improvement to the rise of the CDEP scheme in the 1980s and 1990s. Although Indigenous employment population ratios decline substantially after 2006, the LFS estimates of employment are not reliable enough to infer that this trend was significant. However, it would be surprising if this trend was not real given that at least 20,000 CDEP “jobs” disappeared over this period and the ability to generate new jobs is extremely limited in a recessionary period with depressed labour demand, especially in regional/remote areas.

Figure 2 points to a slow decline in employment population statistics but the recent vacancy data paint a more positive scenario. The number of jobs available in June 2009 in recent Department of Employment, Education and Workplace Relations (DEEWR) data was around 209,000 (internet) vacancies throughout Australia (Australian Government 2010). These data are 11.5 per cent higher than the same time last year and four times higher than in February 2009. Although the recovery is well underway, the issue of the effect of macroeconomic fluctuations on specific populations is still worth continued debate.

Figure 3 documents the long-run trends in labour force participation since 1981, which provides an indication of broad changes in labour supply. The national participation rate increased steadily over the last three decades, largely as a result of the increased participation of females in the workforce. Although Indigenous participation increased up until 1991, in both absolute and relative terms, there was a steady decline in Indigenous labour supply after 1991. That is, the declines in unemployment are greater than the increases in employment. Clearly, the substantial increase in CDEP scheme cannot explain the fall in Indigenous labour force participation rates (at least up to 2006). One might be tempted to conclude that this long-run decline in labour supply is an undesirable thing given that it represents a *prima facie* case of lower levels of economic engagement. However, there has been a remarkable increase in the educational participation of the disproportionately youthful Indigenous population and this fact is likely to explain at least part of the decline in labour force participation. The per cent of Indigenous adults with a post-school population increased by a factor of about 5 between 1981 and 2006 and almost doubled over the last three censuses (Altman *et al.*, 2009, Table A1). Accordingly, to the extent that Indigenous population is increasingly engaged with the education system, the decline in labour supply may not be

Figure 2. *Employment Population Ratios for Indigenous and All Australians*

Notes: LFS estimates for employment are higher than those derived from census data. One reason is likely to be the collection methodology for the LFS is interviewer based (as opposed to self-report). The ABS automatically classifies CDEP workers as employed whereas some individuals may not think of themselves as employed.

Source: Monthly LFS and census data (ABS cat. nos 2020.0 and 6202.0)

Figure 3. *Labour Supply for Indigenous and Other Australians*

Notes: As with Figure 2, the LFS estimates for the Indigenous population are significantly higher than the census estimates – presumably also due to the differences in collection methodology.

Source: Monthly LFS and census data (ABS cat. nos 2020.0 and 6202.0)

such a bad thing. Notwithstanding, such issues do mean that it is difficult to directly identify the existence of a discouraged worker effect among the Indigenous population in recent LFS estimates.

Figure 3 illustrates that Indigenous labour supply has decreased substantially since 2006, but none of the changes is significant because of the unreliability of Indigenous estimates from the LFS. Given the large employment decline in CDEP participation, it is plausible to suggest that this

would result in reductions in labour supply if people did not find alternative jobs or move onto the employment queue.

Altman and Daly (1992a) built their argument on both the increasing Indigenous engagement in the public sector and the high level of industry segregation of Indigenous and non-Indigenous employment.

Segregation in the industry of employment can reflect either the average choices of Indigenous individuals about where they want to work (i.e. their preferences) or external constraints on these choices (e.g. employer discrimination and other demand-side influences). It is conceptually difficult to separately identify the relative contribution of such factors. Hunter (2004) attempted to document the relative roles of supply- and demand-side factors. Industries grow at different rates over time and this means that one can predict the expected growth in Indigenous employment given the current mix of industries that employ Indigenous workers. This “industry-mix” component of growth is closely related to many popular indexes of employment demand used in economic analyses (see Katz and Murphy, 1992). The remainder of employment growth can be attributed to national job growth and a rather complex mixture of demand- and supply-side factors. Therefore, although Hunter (2004, Chapter 3) did not, and could not, separately identify demand-side from supply-side influences, that research does put a lower bound on the importance of demand-side factors. The bottom line from that research is that at least one half (and possibly much more) of the changes in Indigenous employment is explained solely by demand-side factors. Accordingly, we have to expect that adverse macroeconomic times will adversely affect the demand for Indigenous workers substantially.

Table 1 documents the overall distribution of Indigenous and non-Indigenous workers across the various industries using the latest census, which predates the current global financial crisis. Overall, the distributions of employment were not that different from that observed in earlier censuses (with the possible exception of Indigenous involvement in mining that grew strongly between 2001 and

Table 1. *Industry Distribution of Indigenous and Other Australians in 2006*

	2006 Industry composition (% of total employment)	
	Indigenous	Non-Indigenous
Agriculture, forestry and fishing	3.2	3.2
Mining	2.2	1.2
Manufacturing	7.9	10.8
Electricity, gas, water and waste services	1.0	1.0
Construction	7.3	8.0
Wholesale trade	2.6	4.5
Retail trade	8.0	11.7
Accommodation and food services	6.7	6.5
Transport, postal and warehousing	4.2	4.8
Information media and telecommunications	1.1	2.0
Financial and insurance services	1.2	4.0
Rental, hiring and real estate services	1.0	1.7
Professional, scientific and technical services	2.4	6.9
Administrative and support services	3.9	3.2
Public administration and safety	17.9	6.7
Education and training	8.8	7.9
Health care and social assistance	15.4	10.7
Arts and recreation services	1.7	1.4
Other services	3.5	3.8
Total	100.0	100.0

Note: Industry data are derived from the 2006 Census.

Figure 4. *Declining Industrial Segregation between Indigenous and Other Australian Workers, 1981–2006*

2006). Indigenous workers still tend to be employed in different industries from non-Indigenous workers being over-represented in Government jobs and the health (and social assistance) sector.

One way of summarising the difference in the industry structure of Indigenous and non-Indigenous employment is to calculate segregation indexes (Duncan and Duncan, 1955). In order to measure changes in industry segregation over time, the segregation Index has been calculated for the broad industry divisions as revealed by successive censuses between 1981 and 1991 (see Figure 4). The Duncan index has been used because it is relatively easy to interpret – it represents the proportion of Indigenous workers (or non-Indigenous workers) who would have to change their industry of employment in order to eliminate any racial difference in the statistical distributions.

The changes to the ANZSIC classification of industry in 1993 may either increase measured segregation by increasing the number of divisions. Alternatively, the distribution of employment within industries can also lead to apparently lower segregation, depending on which jobs are allocated to which division.

Despite the potential effect of 1993 changes to ANZSIC on measured segregation, there appeared to be little change in the index in this period. Most of the changes in segregation occurred in the early 1980s, a period of significant structural adjustment in the Australian economy. The decline of agricultural and manufacturing sectors as employers of labour appeared to have differentially affected Indigenous workers who were historically over-represented in these industries.

The data quality of Indigenous data in earlier censuses is debatable (Altman *et al.*, 2005), but the decline in measured segregation was even higher if one extends the analysis back to 1971 (Hunter, 2004). Almost 40 per cent of Indigenous workers in 1971 would have been required to change their industry of employment to achieve an industry profile equivalent to that of other Australians (Hunter, 2004). In 2006, the same effect would have been achieved if just over 20 per cent of Indigenous employees had relocated their industry of employment. The reductions in segregation since 1981 are also large, robust and substantial, representing a decline in around 50 per cent from the base period.

These segregation indexes can be benchmarked against the sex segregation index for the total Australian population. The difference between overall male and female distribution across industries implies that about 30 per cent of male (or female) workers would have to change their occupation in order to eliminate the sex differences between two distributions.

Although there remain ongoing differences between the Indigenous and non-Indigenous employment, the distribution of employment by industries is relatively even in the private sector compared with the public sector. Therefore, the overall segregation is driven by public sector

employment, which in turn has a disproportionate concentration of Indigenous workers in the CDEP scheme and the industry category “Government Administration and Defence.”

Segregation of Indigenous and non-Indigenous employment in the private sector is about half the level of segregation between Indigenous employment evident in the public sector (Hunter, 2004, Table 1.8). Indeed, segregation of employment between the sexes was almost three times times than that between Indigenous and non-Indigenous employment in the private sector.

The substantial growth of CDEP employment to 2006 is likely to have put upward pressure on measured overall level of segregation and hence we can be confident that segregation outside the public sector has fallen substantially. Indigenous employed appear to increasingly engage with the Australian economy in a fashion similar to that of other Australians. One of the crucial dynamics in this is that Indigenous involvement in the private sector has increased by over 50 per cent since 1991 (increasing from 20.5 to 32.8 per cent between 1991 and 2006).

Given the relatively low level of racial segregation in private-sector employment, at least in relation to Indigenous Australians, it would be a mistake to overemphasise the impediments to Indigenous employment in the various industries. Although Altman and Daly’s (1992a) emphasis on segregation was justifiable at the time of writing, it is harder to sustain now. Segregation has obviously not been eliminated but Indigenous workers appear to be increasingly involved in mainstream economy in recent year and hence are more likely to be affected by macroeconomic fluctuations.

4. Implications of Macroeconomic Fluctuations for “Closing the Gap” and the Australian Employment Covenant

The greater Indigenous engagement in the Australian economy described in this paper is not something to be feared as it means that Indigenous employment will eventually respond to sustained macroeconomic growth. Indeed, Indigenous employment in the private sector converged rather quickly to the Australian average over the ten years of buoyant economic conditions between 1996 and 2006 (i.e. projections of naïve time trends showed the gap could close in as few as twenty-three years, see Altman *et al.*, 2009).

Notwithstanding, if employment and associated labour force outcomes differ for Indigenous and non-Indigenous people in an economic downturn, then this has direct implications for the prospect for “closing the gap” or overcoming Indigenous disadvantage (Steering Committee for the Review of Government Service Provision 2009). This section explores such issues with a particular focus on the implications for the Australian Employment Covenant (hereafter “the Covenant”) – a national industry-led initiative largely driven by Andrew Forrest of Fortescue Metals Group. The Covenant’s initial aim was the placement and long-term retention of 50,000 Indigenous people into “Covenant Jobs” within a two-year period. Forrest has since distanced himself from this timetable (O’Connor, 2009), but it is still pertinent to reflect on the likely implications of the business cycle for the prospects of finding a substantial number of jobs for Indigenous Australians.

One of the main messages of this paper is that macroeconomic factors cannot be ignored as Indigenous workers are now firmly embedded in the Australian economy. Public policy may provide some buffer against job losses. Altman *et al.* (2009) demonstrated that Indigenous employment did eventually respond to the ten years of buoyant macroeconomic conditions, although the benefits took some time to “trickle down” to Indigenous workers. Unfortunately, the ongoing mismatch between the skills demanded by employers and the skill sets of Indigenous people means that Indigenous workers are likely to be at the back of the job queue in the current economic downturn.

Low-skilled workers with little experience – a group that includes most Indigenous people – tend to be the last workers hired in a period of macroeconomic growth and the first workers shed in an economic downturn (Altman *et al.*, 2009). Businesses can rationalise this behaviour as an effort to minimise the turnover of their most experienced (and often their most high value-added) staff. The crucial point is that the ability to close the gap depends on the macroeconomic growth and

the business cycle. Although Indigenous outcomes are likely to improve during sustained periods of economic growth, but all else being equal, relative outcomes tend to stagnate or get worse in recessions. This is an important point to keep in mind with the continuing global financial crisis, and therefore Australia's diminished economic growth prospects.

The success of the "closing the gap" policy depends on what happens in non-Indigenous Australia as well as the trends in measured changes Indigenous disadvantage (Altman *et al.*, 2009). Obviously, the measured "gaps" are directly affected if the non-Indigenous benchmark changes; however, the ability of Indigenous outcomes to reach such benchmarks will also change with variations in social and economic conditions. Clearly, the recent economic downturn is one such condition or event.

Superannuation funds are particularly affected by substantial falls in the stock market valuations and asset prices. The lowering of interest rates are not only a suitable response to stimulate aggregate demand, but also has substantial impacts on people on fixed incomes, for example self-funded retirees. The decline in net wealth will significantly and adversely affect those who live long enough to avail themselves of superannuation payouts or have worked long enough to accrue substantial entitlements. However, this is unlikely to include substantial numbers of Indigenous people whose average life expectancy was around ten years less than the non-Indigenous population (ABS/AIHW 2010: gap of 11.5 years for males and 9.7 years for females). Even if the financial crisis does reduce the average income of the non-Indigenous population and hence close the income gap, there is no necessary reason why it will improve the employment disadvantage experienced by Indigenous Australians *vis-à-vis* other Australians. Indeed, the reduction in net wealth may induce an added worker effect and increase the competition for scarce jobs. Given the historical lack of skills of many Indigenous workers, their relatively short exposure to labour market will ensure that these Indigenous workers are in a poor position to compete with more productive workers who have recently held jobs.

The Covenant was launched on 30 October 2008 at Kirribilli House and, at last count, around the 10,000 jobs that have been promised to the Covenant organisers (O'Connor, 2009). It is a credit to the Covenant that it has secured so many commitments from employers in adverse macroeconomic times (stock markets started their decline from November 2007). However, firms that are under manifest financial pressures are not likely to employ extra workers when their bottom line is under pressure. As argued above, they are particularly unlikely to employ Indigenous workers, many of whom are relatively unproductive. Andrew Forrest appears to have secured a commitment from the government that subsidies for training will be tailored to employers' specifications (Perpitch, 2009). However, questions remain as to whether the deep skill deficits, arising from a long history of educational neglect, can be overcome by short-training courses.

One alternative is that firms participating in the Covenant can subsidise Indigenous workers, but their ability and willingness to do so is diminished when the survival instinct takes over in a recessionary environment. The low level of (aggregate) demand for goods and services means that profit margins are constrained for most employers. This is not to deny that some firms will thrive in a harsh macroeconomic climate.³ The main point is that so-called "Corporate Social Responsibility" is unlikely to be sufficient for enhancing Indigenous employment outcomes in the short-run. When profit margins are restored to the levels evident before the economic downturn, the Covenant may be more successful in achieving its target. It is an important development that significant elements in the private sector are trying to be actively involved in overcoming Indigenous disadvantage, but it is important to acknowledge the limitations to such initiatives.

In the last years of the Howard Government, the CDEP scheme was wound back to focus only on regional and remote areas. The current round of reforms refined the focus of CDEP scheme to remote areas (see Australian Government 2009). Furthermore, even in remote areas, there will be

³Indeed, some structural adjustment is likely to eventually occur, but the economy must endure higher levels of unemployment and low wage growth (or contractions) if these positive adjustments are to occur.

transitional arrangements so that new CDEP participants in the reformed CDEP would access the programme while on the relevant income support from 1 July 2009. Existing CDEP participants in remote areas would be able to access CDEP wages until 30 June 2011. The main implication of these reforms to CDEP is that the increased number of Indigenous jobseekers may put pressure on regional labour markets, especially in remote areas. At the end of February 2009, only 17,000 participants were employed in the CDEP scheme (pers. com., CDEP Programme Management Branch) – this figure is only half that evident in 2006 and hence, all things being equal, one would expect that there are around 18,000 more Indigenous people competing in the open job market as a result of the job search requirement entailed in many income support payments. When the remaining participants are eventually displaced from the scheme, this will place extra pressure on the Indigenous labour market.⁴ Not only will this increase the number of jobs required for Indigenous people to close the employment gap, but is also likely to induce a more substantial discouraged worker effect in such areas as it affects the costs and benefits of job search. Hunter (2009) demonstrated that CDEP scheme has an unambiguously positive effect on individual well-being and hence the reform will probably worsen other aspects of Indigenous disadvantage to the extent it diminishes CDEP employment (especially in the short-run).

There is no guarantee about what will happen to Indigenous and non-Indigenous employment, but based on historical evidence we would expect the employment gap to increase in absolute and relative terms. Is there anything that policy-makers can do to prevent this occurring? Conventional responses involve active labour market programmes, but these initiatives only have had limited success in redressing Indigenous disadvantage (Hunter *et al.*, 2000). A study of 1580 Indigenous jobseekers showed that respondents who completed a labour market programme were only 6.3 percentage points less likely to employment shortly after the programme than those who did not complete the programme.⁵

Wage subsidies were the most successful labour market programmes as they were associated with longer spells in employment, less time in unemployment and a higher number of spells in employment than other labour market programmes (Hunter *et al.*, 2000). One possibility is that wage subsidies achieved better outcomes for Indigenous jobseekers because it had higher rates of “completion” than job creation, training subsidies and employment support programmes. The chronic lack of Indigenous completions in other labour market programmes may explain their relative ineffectiveness. One constructive suggestion is to design programmes that take into account Indigenous preferences in a more satisfactory way (Jordan and Hunter, 2009).

Wage subsidies still exist for Indigenous jobseekers, but wage subsidies and other labour market programmes are not available to most other Australian jobseekers. If the Covenant draws in employers who can subsidise their bottom line using Indigenous workers, then there is a chance that the employment gap might be closed somewhat. There are two potential problems with this scenario. First, and most importantly, wage subsidies have only been available for Indigenous jobseekers for some time and there has not been substantial change in the recent employment gap.⁶ The second problem may be that the government can respond to the higher rates of aggregate unemployment by making wage subsidies and other labour market programmes more widely available. In that case, the relative advantage of Indigenous jobseekers arising from the subsidy

⁴ABS (2008) reported that Indigenous data from the LFS showed that the number of indigenous employed increased significantly with an extra 20,000 or so jobs between 2002 and 2007. Over the same period, the employment–population ratio did not change (and is still around 48.4 per cent) and hence the increased number of Indigenous jobs only kept up with the population growth. The large loss of CDEP jobs, and the prospect of further losses as participants move onto other income support arrangements, will place enormous pressures on the Indigenous labour market.

⁵The employment rate after labour market programmes was slightly better when compared with those who did not start any such programme (about 10 percentage points).

⁶To be fair, there was some improvement in Indigenous employment *vis-à-vis* other Australians between 2001 and 2006, although this could be attributable to either general buoyant labour market conditions or the existence of Indigenous-specific wage assistance programme in the last inter-censal period.

dissipates and the possibility of a positive interaction between subsidies and the Covenant is eliminated.

In summary, the prospect for closing the gap between Indigenous and non-Indigenous employment is rather limited in an economic slow-down. Notwithstanding, it is possible that positive synergies between the greater commitment of particular companies, wage subsidies and training tailored to employer needs may enhance Indigenous employment outcomes. However, one could not be confident that this would be a widespread phenomenon in a relatively adverse macroeconomic climate. A rather obvious point to make is that the total number of vacancies currently listed on DEEW's online employment web site has only recently exceeded the total target for the Covenant – so, even if the competition from non-Indigenous jobseekers was limited, it would clearly take some time to achieve the rather ambitious goal set by Andrew Forrest. Although the Covenant may not be as successful as it originally set out to be, it might be an important symbolic contribution in the long-run. Given the remarkable growth in Indigenous private sector employment since 1996, any effort to close the gap between Indigenous and non-Indigenous outcomes needs to actively involve this sector. Recessions do circumscribe the ability to improve Indigenous employment outcomes, but this simply means that educational and training investments become even more important in ensuring that Indigenous people are in a competitive position once economic growth picks up again.

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