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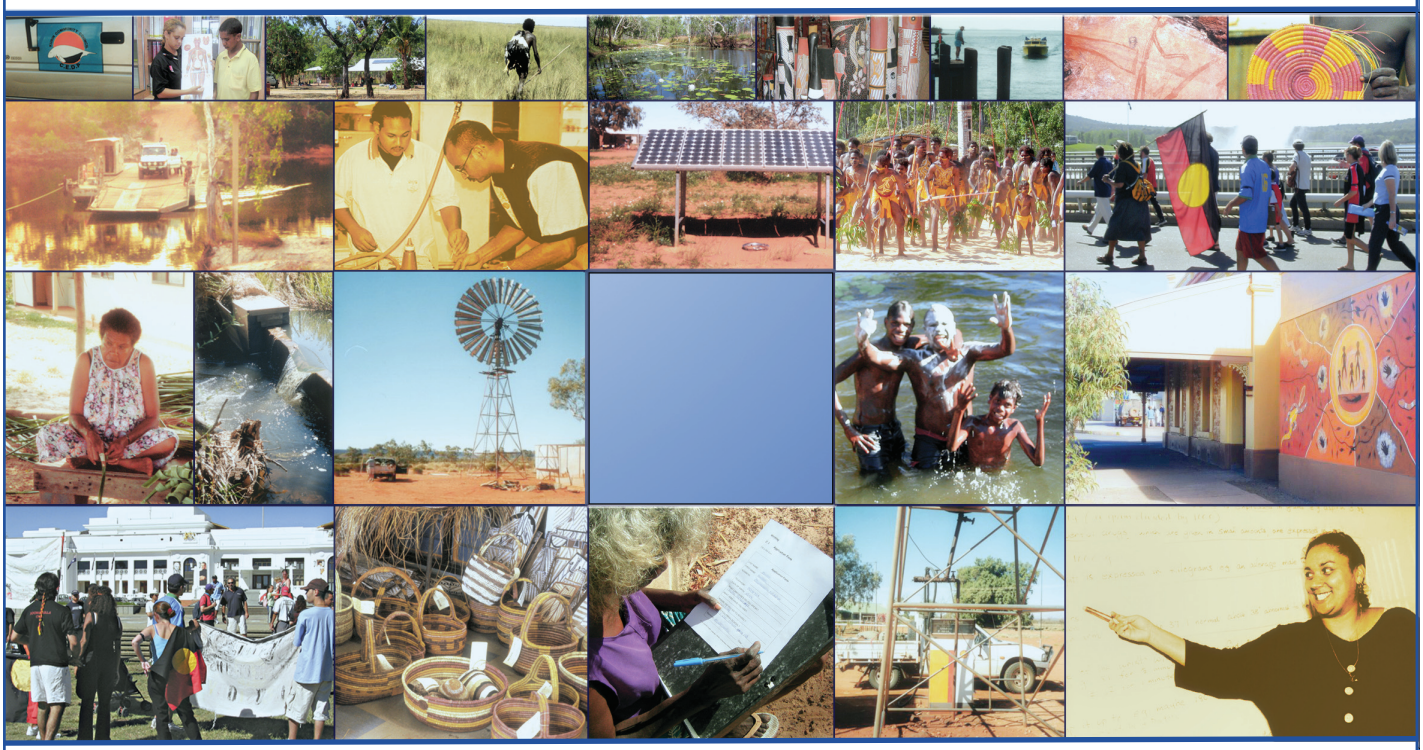

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Prospects for closing the gap in a recession: Revisiting the role of macroeconomic factors in Indigenous employment

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GLOBAL FINANCIAL CRISIS, THE NATIONAL ECONOMY AND INDIGENOUS AUSTRALIANS

It is hard to escape the global financial crisis. Stock markets around the world have plunged in unison in response to the poor fiduciary management of loan portfolios of many financial markets. While Australia is not yet in a technical recession, most countries are simultaneously entering the deflationary stages of their business cycle, with many experiencing major contractions in their national output. Malcolm Edey, Assistant Governor (of the Reserve Bank of Australia) indicated in a recent speech, 'Given the abrupt deterioration in the world economy, it won't be possible for Australia to avoid significant short-term weakness' (Edey 2009).

The global lack of access to credit is depressing both consumer and investor confidence, and the federal government has enacted large stimulus packages to stimulate aggregate demand in Australia. Conventional wisdom in economics is that this stimulus should enhance macroeconomic activity; but the likely effect is diminished to the extent that economic actors save extra income (or do not invest in productive activities), or there is 'leakage' in the circulation of money to overseas actors. Consequently—notwithstanding the policy response to limit the adverse macroeconomic impacts—it is probable that there will be a substantial increase in unemployment and a concomitant loss in employment prospects.[1]

This short paper is an attempt to tease out some of the issues of these adverse macroeconomic conditions on a 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 notable exceptions such issues have been rarely discussed (Altman & Daly 1992b).

Altman and Daly (1992b) explicitly ask the question: '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 have reversed in recent years with the decline in the Indigenous public sector associated with the dismantling of Aboriginal and Torres Strait Islander Commission (ATSIC) 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, which institutes a bias against Indigenous employment. Despite recent improvements in Indigenous educational attainment, sadly such changes have not kept up with those observed for other Australians (Altman, Biddle & Hunter 2005; Altman, Biddle & Hunter 2008). Certainly the gap in the incidence of graduate qualifications between Indigenous and other Australians is substantial and shows no sign of disappearing in the near future. Indeed, Altman, Biddle and Hunter (2008) use data from the last three censuses to show that 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 Indigenous economic activity are not going to affect the macroeconomy significantly: however broader economic factors and macroeconomic behavioural patterns will drive Indigenous economic activity. In order to understand the likely effects of macroeconomic outcomes on Indigenous workers, it is essential to understand the extent to which Indigenous labour market outcomes are driven by either the behaviour of employers or the preferences and resulting behaviours of the Indigenous workforce. Economists call such influences 'demand-side' and 'supply-side' factors respectively.

The next section examines the relative role of demand and supply factors in order to explore the extent to which Indigenous employment is separate from macroeconomic forces. The following section then rehearses some arguments concerning the dynamics of Indigenous employment, and explores, using the discouraged worker and additional worker hypotheses, how Indigenous labour force participation rates might change with the adverse macroeconomic conditions. The final section examines the implications for the Australian Employment Covenant and policy objectives of 'closing the gap' in Indigenous employment outcomes from the prospective onset of adverse economic times.

DEMAND FOR AND SUPPLY OF INDIGENOUS WORKERS

Altman and Daly (1992a) build 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. Hunter (2004) extends this analysis to show that the majority of this industry segregation is concentrated in public sector employment with measured segregation in Indigenous employment; the private sector being about half that in the public sector (e.g., the Community Development Employment Projects (CDEP) scheme). Taylor and Liu (1995) demonstrate that a high level of overall industry segregation between Indigenous and other workers is evident in rural/remote areas.

CDEP: Community Development Employment Projects

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 identify the relative contribution of such factors. Hunter (2004) attempts 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 & Murphy 1992). The remainder of employment growth can be attributed to national job growth and a rather complex mixture of demand-side and supply-side factors. Therefore, while Hunter (2004: Chapter 3) does not, and cannot, 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 are 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. Industry distribution of Indigenous and other Australians in 2006 and prospects in the economic downturn

	2006 industry composition (% of total employment)		Immediate Prospects for Industry for 2009
	Indigenous	Non-Indigenous	
Agriculture, forestry & fishing	3.2	3.2	Good
Mining	2.2	1.2	Pessimistic
Manufacturing	7.9	10.8	Weak
Electricity, gas, water & waste services	1.0	1.0	Mixed
Construction	7.3	8.0	Mixed
Wholesale trade	2.6	4.5	Weak
Retail trade	8.0	11.7	Weak
Accommodation & food services	6.7	6.5	Weak
Transport, postal & warehousing	4.2	4.8	Weak
Information media & telecommunications	1.1	2.0	Weak
Financial & insurance services	1.2	4.0	Disaster
Rental, hiring & real estate services	1.0	1.7	Weak
Professional, scientific & technical services	2.4	6.9	Mixed
Administrative & support services	3.9	3.2	Mixed
Public administration & safety	17.9	6.7	Mixed
Education & training	8.8	7.9	Good
Health care & social assistance	15.4	10.7	Good
Arts & recreation services	1.7	1.4	Mixed
Other services	3.5	3.8	Weak
Total	100.0	100.0	

Note: Industry data is derived from the 2006 Census while the prospects of the industry in the economic downturn are inferred using the IBISWorld (2009) pamphlet, 'Economic Downturn: Who will thrive in 2009?' as a starting point. The assessments are inherently subjective. For example, disaster is rather emotive term but it seems to accurately describe the current predicament in the financial sector. The IBISWorld pamphlet told investors to 'avoid' the mining sector, which has been translated to 'pessimistic' for this table. Where the sector was not referred to explicitly, I have interpolated using the prospects described for other similar industries.

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 to that observed in earlier censuses (with the possible exception of Indigenous involvement in mining, which grew strongly between 2001 and 2006).

Overall Indigenous workers still tend to be employed in different industries from non-Indigenous workers. However, Table 1 uses a recent assessment by a company IBISWorld to provide a broad qualitative assessment of how industries might fare in the current downturn.[3] Note that this table involves some interpolation and judgement calls on the part of the authors, but should provide a rough basis for a broad assessment of how Indigenous workers might fare in the near future. The financial sector will be particularly hard hit,

while only education and health are going to fare relatively well. Even so it would probably be naïve to expect large absolute increases in employment in education and health: rather they are only going to fare relatively well in the economic downturn.

The mining sector prospects are described in pessimistic terms by IBISWorld, possibly because of uncertainty about the export demand for resources.[4] Notwithstanding the recent growth in mining, the Indigenous mining sector is still extremely small, and hence one would expect, other things being equal, that Indigenous workers may be less affected by the prospect of job losses in that sector.

While the general lack of involvement in the finance sector may also protect Indigenous workers to some extent, in all likelihood there will be a substantial effect on the real economy— especially in the assets held by many Australians. This decline in wealth and income from financial assets are a separate issue that will be discussed in the final section.

DEEWR: Department of Employment, Education and Workplace Relations

Another consideration is the number of jobs or vacancies that are currently available. Recent Department of Employment, Education and Workplace Relations (DEEWR) data from their online employment website showed around 40,500 vacancies were available throughout Australia in mid-February 2009 (Australian Government 2009a). This data is not broken down by industry, but the top three occupational groups were: Labourers, Factory and Machine Workers (6,600); Food, Hospitality and Tourism (4,700) and Marketing and Sales Representatives (3,400). While there is considerable indigenous participation in these occupations, there are also a large number of non-Indigenous persons unemployed with suitable skills.

Overall, the above analysis seems to indicate that Indigenous workers may be less affected by the economic downturn than other Australian workers. However, even if the demand for Indigenous workers is not directly affected by sectoral change associated with the economic downturn, the adverse macroeconomic conditions will probably worsen Indigenous outcomes through their effect on the probability of employment and unemployment and the incentives for job search. That is, even if there is no decline in the job prospects in the industries that currently employ Indigenous workers, the higher unemployment among relatively skilled non-Indigenous workers may mean that there is greater competition for job vacancies.

THE DYNAMICS OF INDIGENOUS EMPLOYMENT AND UNEMPLOYMENT: THE DISCOURAGED WORKER VERSUS THE ADDED WORKER HYPOTHESES

Gray and Hunter (2005) demonstrate that the dynamics of Indigenous employment and unemployment are clearly different to that of other Australians. Using representative samples of job seekers, they demonstrate that the Indigenous unemployed are half as likely as other Australian unemployed to move into employment after 15 months (between 1996 and 1997). Furthermore, and an observation that is particularly important for this analysis, Indigenous unemployed are substantially more likely to stop looking for work and leave the labour force after a 15-month break (e.g., for females, the relevant differential in this transition was 40.1% compared to 22.4%). Indigenous unemployed are also more likely to stay unemployed when compared with other job seekers. The other possible transition over this 15-month period was that the unemployed could become employed—around 20 per cent of unemployed males and females became employed (23% and 17.8% respectively). The composition of jobs found broadly followed that evident in the labour market with male jobs being over two thirds full-time and half of the female jobs being part-time (Gray & Hunter 2005).

Table 2. Marginal effects of the probability of job retention, three or more consecutive months of employment, Indigenous workers, 1996–7

	Male (%)	Female (%)
Age	1.4	-1.2
Year 11	19.4*	14.6**
Year 12	32.4*	27.8*
Trade qualification	16.7*	24.9*
Other qualification	10.5	17.5*
Degree/diploma	27.5*	33.3*
Still in education	-10.2	-0.1
Poor health	-18.5*	-11.3**
Arrested	-18.8*	-5.9
Been on a labour market program	2.6	14.3*
Base case	55.3	57.3

Note: * and ** Indicates that the underlying coefficient is statistically significant at the 5 per cent and 10 per cent confidence levels respectively. The marginal effect is the change in probability of retaining a job from a reference person (i.e., the base case) as a result of varying the relevant explanatory factor.

Source: Gray and Hunter (2005: Table 5)

Job retention is another major aspect of the dynamics of the Indigenous labour market. Table 2 describes some of the major factors underlying the ability of Indigenous workers to keep their jobs over three or more consecutive months (Gray & Hunter 2005). Social, environmental and cultural factors are important determinants of Indigenous people finding employment (Borland & Hunter 2000). Table 2 illustrates that such factors are also crucial in explaining Indigenous job retention—overall, the results from Hunter and Gray (2005) are broadly consistent with those found in studies of the determinants of labour force status (see Hunter 2001; 2004 for surveys of this literature). Indigenous job retention is particularly adversely affected by factors such as interactions with the criminal justice system, health and poor education. Finishing Year 12 increases the probability of employment by around 30 percentage points (as compared to Indigenous individuals who have not reached year 12). This observation probably reflects that the skill level of individuals is positively associated with productivity, and hence educated workers are more valuable to employers. In times of structural change, workers with general skills may also be more flexible; hence firms may hold onto and retain such workers even though market conditions (and therefore the goods and services produced) might change.

Other important factors in job retention include health and arrest. Having poor health reduces the probability of job retention for males by 18.5 percentage points, and the effect is statistically significant. Having been arrested in the last five years reduces job retention for males for three or more consecutive months by males by 18.8 percentage points. The effects of health and arrest for females are substantially smaller; reducing the probability of employment by 11.9 and 5.9 percentage points respectively (with the latter effect not being statistically significant).

The results for Table 2 highlight the role of negative factors that are particularly evident in the Indigenous population. It is possible or even probable that such factors are also important for non-Indigenous job retention. Note that with respect to the role of arrest, the low incidence of arrest in the non-Indigenous

population means that such data are not generally collected in surveys of the total population—consequently these Indigenous-specific results are rather unique. This observation tells a story in itself in that the extant gap in social outcomes between Indigenous and non-Indigenous workers is one reason for the ongoing high levels of Indigenous disadvantage.

Another dynamic in the Indigenous labour market is how people find jobs. In the 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 that are marginally attached to the labour market are constrained participants who optimally 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 overall economic activity in both the Australian economy and the local labour market. The main avenues 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 & Hunter 1999) and the aggregate number of job vacancies in the economy at large.

Such concepts have a long history in labour economics. Empirical studies of the relationship between the labour force participation rate and the unemployment rate date back to the 1940s (Gray, Heath et al. 2002). Woytinsky (1940) developed the 'additional worker theory' which suggests that the participation rate should increase during recessions because there would be an influx of 'fringe' potential workers into the labour market. This occurs because of their need to supplement family income following unemployment of the 'breadwinner'. In contrast Long (1958) and Humphrey (1940), argued that unemployed workers become discouraged during a recession due to the diminished likelihood of finding employment, and consequently exit the job market. This phenomena is labelled the 'discouraged worker effect'. This theory suggests that the participation rate should decrease during recessions because people who would otherwise have entered the labour force become 'discouraged' in a recession and tend to remain out of the labour market. Looking for work has such a low expected pay-off for them that such people decide that spending time at home is more productive than spending time in job search.

McConnnell and Brue (1992) argue that the discouraged worker effect should outweigh the added-worker effect because the discouraged worker effect applies to many more households than the added worker effect. For example, if the household unemployment rate rises from, say 5 to 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 & Brue 1992: 71).

ABS: Australian Bureau of Statistics

Labour Force Survey data for March 2009 seem to indicate that there is a net added-worker effect evident with both national unemployment and labour force participation increasing in recent months (Australian Bureau of Statistics (ABS) 2009). 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 (for those not looking for 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 & Gray 2001). Using this broad definition, Indigenous males are almost four times more likely than other Australian males to be wanting work but are not be actively looking for work (15.8% as opposed to 4.2%). Indigenous females are almost three times more likely to be discouraged workers than are non-Indigenous females (29.3% as opposed to 10.0%). While such evidence is somewhat dated now, being based on 1994 data, they demonstrate that one cannot discount the possibility that discouraged workers will be a significant issue for Indigenous Australians in the current downturn.

Hunter and Gray (2001) describe some of the issues for determining whether individual Indigenous job seekers look for work. In addition to the role of the business cycle, the list of factors that influence whether a person is discouraged worker include: a range of personal characteristics (e.g., age; skill level; difficulty speaking English), relationship status, combined with number and age of dependent children,[5] 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 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 worker is not sensitive to locational factors or local regional labour market conditions (in remote Australia or elsewhere).

Underemployment has arisen as a prominent issue over recent 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 they would prefer to work more hours (Hunter 2002). Hunter (2002) also showed that the Indigenous underemployed work about 11 hours less per week than Indigenous employees who are unconstrained in the number of hours they work. Not only do the underemployed have difficulty 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. It is worth noting that CDEP scheme workers are about twice as likely to be underemployed as other Indigenous workers. The issue of CDEP scheme work is complicated by evolving program reforms, which will be referred to in the concluding section.

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 increase individual productivity, but it may also increase the desire to work by, inter alia, increasing the opportunity costs of not working. Notwithstanding these analytical difficulties, long term policies which augment the demand for Indigenous workers, such as effective education and regional development policies, are likely to substantively improve Indigenous labour force status.

The dynamics of Indigenous job search and other labour market behaviour described in this section are likely to drive the eventual outcomes arising from the current economic downturn. While the above dynamics may be sensitive to the stage of the business cycle in which data were collected, many economists are predicting that the aggregate unemployment rate will reach around 8 per cent in the current slow down, which is broadly consistent with that evident when the data used in this section was collected.

Uncertainty is the order of the day for both Indigenous and non-Indigenous Australians in adverse macroeconomic times. Notwithstanding, it is possible to make an educated guess about what might happen to socioeconomic outcome for both groups in an economic downturn, and hence speculate about the prospects for 'closing the gap' or overcoming Indigenous disadvantage (Steering Committee for the Review of Government Service Provision 2007). The next section explores these issues by discussing the implications for the Australian Employment Covenant ('the Covenant')—a national industry-led initiative especially 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 now distanced himself from this timetable (O'Connor 2009). Clearly the prospects for 'closing the gap' will be affected by recession, so the major implications of adverse macroeconomic times for both the 'closing the gap' policy and the Covenant will be discussed in turn.

IMPLICATIONS OF THE ECONOMIC DOWNTURN FOR 'CLOSING THE GAP' AND THE AUSTRALIAN EMPLOYMENT COVENANT

One of the main messages of this paper is that macroeconomic factors cannot be ignored, for Indigenous workers are firmly embedded in the Australian economy. Public policy may provide some buffer against job losses, but Indigenous employment is not in a position to 'defy gravity'. Altman, Biddle and Hunter (2008) demonstrate that Indigenous employment did eventually respond to the 10 years of buoyant macroeconomic conditions, although the benefits took some time to 'trickle down' to Indigenous workers. The ongoing mismatch between the skills demanded by employers and the skill sets that Indigenous people possess means that Indigenous workers are likely to be at the back of the job queue in the current economic downturn.

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, Biddle et al. 2008). 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 current economic downturn is one such condition or event.

LIFO:
Last In First Out

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 (i.e., Last In First Out or LIFO accounting). Businesses often rationalise this behaviour on the grounds that they want to minimise turnover of their most experienced (and usually most high value-added) staff. The crucial point is that the ability to close the gap cannot be sustained indefinitely, as it depends on macroeconomic growth which by definition goes up and down with the business cycle. Therefore relative 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 the recessionary periods of the cycle. This is an important point to keep in mind with the continuing global financial crisis and Australia's resultant diminished economic growth prospects.

Superannuation funds are being particularly hard hit by substantial falls in the stock market valuations. The lowering of interest rates are a suitable response to stimulate aggregate demand, but it also has substantial impacts on people on fixed incomes, for example self-funded retirees. The slump in stock prices and wealth also has substantial implications for superannuation and people on fixed incomes. 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 is around 17 years less than the non-Indigenous population (ABS/Australian Institute of Health and Welfare 2008). 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 they 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 10,000 jobs that have been promised to 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, it is timely to consider the likelihood of achieving the 50,000 target in the near future. 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. 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 can increase their subsidy to Indigenous workers, but their ability and willingness to do so is diminished as the 'survival instinct' takes over. 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.[6] 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 encouraging 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 2009b). Furthermore, even in remote areas there will be transitional arrangements so that new participants in the reformed CDEP will access the program while on the relevant income support from 1 July 2009. Existing CDEP participants in remote areas will 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—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.[7] Not only will this increase the number of jobs required for indigenous people to close the employment gap, but is likely to induce a more substantial

discouraged worker effect in such areas, as it effects the costs and benefits of job search. Hunter (2009) demonstrates that CDEP scheme has an unambiguously positive effect on individual wellbeing, 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 programs, but these initiatives only have had limited success in redressing Indigenous disadvantage (Hunter, Gray et al. 2000). A study of 1,580 Indigenous job seekers showed that respondents who completed a labour market program were only 6.3 percentage points less likely to employment shortly after the program than those who did not complete the program.[8]

Wage subsidies were the most successful labour market programs 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 programs (Hunter, Gray & Chapman 2000). One reason that wage subsidies achieved better outcomes for Indigenous job seekers than job creation, training subsidies and employment support programs was that it had higher rates of 'completion'. This is not surprising, since wage subsidies demand little from the jobseeker involved once the subsidy is being paid.

It is hard not to be pessimistic about the efficacy of labour market programs for Indigenous job seekers, especially in adverse economic times. Note that the Hunter Gray and Chapman's (2000) results are based on 1996–7 data, drawn when the national unemployment rate was well over 8 per cent. Given that many economists are predicting that the current downturn will become a recession and the unemployment will reach levels at least this high, our findings cannot be easily discounted as being an artefact of the conditions in the mid-1990s.

Wage subsidies still exist for Indigenous jobseekers and may offer one note of optimism. If the Covenant draws in employers who can subsidise their bottom line using Indigenous workers, then there is a vague possibility 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 employment gap to date.[9] The second problem may be that the government may respond to the higher rates of aggregate unemployment with wage subsidies and other labour market programs. In that case, the relative advantage of Indigenous jobseekers arising from the subsidy 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 extremely limited—consequently, my attempts to be optimistic about the prospects would appear to degenerate to be 'grasping at straws'. 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 wide-spread phenomenon in an adverse macroeconomic climate. A rather obvious point to make is that the total number of vacancies currently listed on DEEWR's online employment web site is less than the 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. While 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.

NOTES

1. Not only does the experience of unemployment increases the chances of a future spells of unemployment, but joblessness also leaves permanent scars on individuals when people find work because of the stigma some employers ascribe to the unemployed (Arulampalam 2001). Not only do these people lose income during periods of joblessness, but the wage penalty for having been unemployed is as much as 14 per cent of the wage expected if the person had not experienced unemployment (Arulampalam 2001). Redundancy seems to be less stigmatizing than other pathways into unemployment.
2. This 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.
3. IBISWorld is a Business Information provider who offers comprehensive background information on all industry, top 2000 companies and the business environment.
4. Even in countries still experiencing some growth like the People's Republic of China, the depressed demand for goods from the developed world means that resource requirements are limited.
5. Children affect the costs of working (e.g. childcare) as well as value of time spent in household production, and sociological factors surrounding attitudes towards parents working.
6. Indeed 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.
7. The ABS (2008) reports that Indigenous data from the Labour Force Survey 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 %) 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.
8. Note, the employment rate after labour market programs is slightly better when compared with those who did not start any such program (about 10 percentage points).
9. To be fair, there was some improvement in Indigenous employment vis-à-vis other Australians between 2001–06—although, this could be attributable to either general buoyant labour market conditions or the existence of Indigenous-specific wage assistance program in the last inter-censal period.

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