

Chapter 10

'Asking the Right Questions'??

BY

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Employment and the hard Policy Choices

I am very pleased to be here today. I have been so impressed over the last decade or so by the progress made in collecting and analysing indigenous economic and labour market data that I wanted to come and say how much the situation has improved and how important CAEPR and its Director, Professor Altman, and the Australian Bureau of Statistics, have been in pushing hard to improve the empirical foundations upon which sound policy can be built.

I too have made some small contribution to this development. Dr Boyd Hunter and Dr Anne Daly were my students and they have played a significant role in advancing knowledge in this important area. Perhaps I might share a little reflected glory from their fine publishing records. Apart from this, however, my contribution has been small. So I am very much an outsider with all the advantages of that position; I can speak in a tone of voice with great authority without knowing what I am talking about; I can leave the conference very quickly without being missed; and lastly the chance that anything I say will adversely affect my career is very slight. If I was actively working on Indigenous economic policy, and building a career in this important area, then I might choose to be more circumspect and a little more humble and politically sensitive in my remarks.

So, I thought that the best thing I could do as an outsider, and remembering my state of ignorance, is to say the sort of things that are often said behind closed doors, or at dinner parties, but not

usually said too explicitly and openly by experts who are working on Indigenous affairs. The public remarks of insider experts seem to me to be too optimistic in assessing past progress, too optimistic as to likely future outcomes and to place insufficient emphasis on economic outcomes. The more pessimistic, and I believe more realistic comments I am about to make, need to be laid out clearly because I believe that Indigenous economic and employment policy is about to change quite markedly. It is possible already to discern three major initiatives and these policy directions will continue, probably at an accelerating pace.

First, there will be large political shifts in the relationship between government and the indigenous community. Relationships are becoming more concerned with economic issues and less concerned with developing an Aboriginal identity and with gestures of reconciliation. The Federal government has clearly decided to reduce its support for indigenous political development and to change the way it seeks policy advice from the indigenous community. This process has begun with the abolition of ATSIC. My guess is that the golden period of broad based indigenous political influence is over, at least at the Federal level. It is worth noting that there was no widespread political opposition to recent changes.

Second, there will be important shifts in Australian welfare policy, not prompted by indigenous outcomes, but, nevertheless, very important for indigenous living standards. These changes, in the short run, must lead to lower indigenous incomes. Much of the income that flows to indigenous people comes from the Federal government as income transfers through the Australian welfare system and policies to reduce welfare expenditure, across the board will impact disproportionately on indigenous people. The hoped for trade-off from these initiatives is that lower real welfare incomes in the near future will generate individual responses that will lead to higher real employment incomes in the far future. The hoped for

response is that individuals will substitute higher employment income for lower welfare income. To offset these short run losses of welfare income would require disproportionate and wide ranging employment responses, outcomes which seem unlikely when placed against past trend.

Third, there will be large changes made to the CDEP scheme which is the major employment growth centre for indigenous people.

In these comments I focus primarily on the economic issues of employment and welfare reform and put aside political changes.

Employment

I wish to make two major points about indigenous employment. First, indigenous mainstream employment is extremely low. Second, if CDEP is placed aside, there is no evidence that across-the-board employment prospects are improving. These employment outcomes are extremely worrying and disappointing. Despite large amounts of public expenditure to improve indigenous employment levels, and despite very significant improvements in indigenous school attendance and education levels, there has been very little employment growth outside CDEP. In this dimension our policies seem to have failed spectacularly.

The parlous state of indigenous employment is illustrated in Table 1 which presents various estimates of the employment/population ratios for adult Indigenous Australians taken from a range of publications. The employment ratios listed in the first set of data are taken from the Census and presented by Hunter and Taylor (2004). In 1991 the indigenous employment-population ratio for adult males, 15 to 64 years, and including CDEP employment, was 37.6 per cent. Just over one in three Aborigines had a job. By 2001 the employment ratio has lifted to 40.4 per cent. This is an improvement but the employment rate is still very low. Altman, Biddle and Hunter (2005)

take the data back to 1971 and the employment-population ratio of 2001 is clearly lower than thirty years earlier.

The second set of data utilizes a concept that I call mainstream employment. Mainstream employment excludes CDEP from the employment data. These employment estimates suggest that in 1991 the employment-population ratio was 32.9 per cent and by 2001 it had fallen to 29.5 per cent. It is worth spending some time emphasising how low this number is. Suppose you were to undertake an Australian wide survey and the first question posed of the respondent is 'Are you an Indigenous Australian'. If the answer is yes you could bet that the respondent was not employed in the mainstream economy and you would be right 7 times out of 10. Perhaps even more importantly, over the last three decades indigenous employment, net of CDEP, has moved backwards. The various policy initiatives—primarily additional indigenous education expenditure, increased indigenous access to welfare support and extensive indigenous employment programs—have been associated with no net employment gains relative to population growth.

To construct the third set of data, I subtract from the mainstream employment-population ratio my estimates of the number of indigenous adults in a sub-group that I call the indigenous elite. I define the elite as those Indigenous people who report employment income that places them in the top 30 per cent of the Australia wide employment income distribution. The number of Aboriginals who are in this category has grown over the last few decades and it is one area of great success. There has been good progress here and there is now a significant, but still very small group of aboriginals, that do well in the mainstream economy although most of this group is associated with various indigenous economic and political activities. It is important to subtract these successful individuals from the employment data because I want to emphasise what has been happening to the non-elite. For non-elite indigenous people the

employment-population ratio was 28.4 per cent in 1991 and it has now fallen to 19.6 per cent. So, after removing the small employment increase of those with high incomes, 80 per cent of the remaining Aboriginals do not have employment in the mainstream economy. This is an appallingly low figure.

Finally, in the last data set presented in Table 1, I list estimates of those employed full-time and those employed in the private sector. Both these categories of employment have fallen.

Demand and Supply

Why is the indigenous employment record so bad? The Australian government has spent considerable amounts of money and invested in a wide range of indigenous employment programs and yet we do not seem to be able to increase significantly the number of Aboriginals involved in mainstream employment. Why not?

Most people address this question in terms of two main explanations, each with very different policy implications. One suggested explanation is that, by and large, Indigenous people choose not to be employed in the mainstream economy (the supply side explanation). This is done in various direct and indirect ways. One important decision is the place of residence. Perhaps for family reasons or the desire to live a life closely based on traditional values – many indigenous people choose to live in traditional remote areas where there are no jobs and thereby choose not to move to locations where there are employment opportunities?

Perhaps indigenous people also choose not to search too hard for a job? Perhaps the traditional values that lead to income sharing reduce the incentives to accept well paying jobs on mine sites, for example, as well paid individuals inevitably have to distribute so much of their wages to other members of their community.

If supply side behaviour is an important reason for the low employment outcome then it is important to understand why this

choice is being made. Is this choice strongly influenced by financial incentives that favour the non-seeking of jobs and non-involvement in the mainstream economy? In this respect are unemployment benefits too high so that Indigenous people are better off financially without employment? If financial incentives are important then employment may respond significantly to supply side policy changes.

If supply decisions are not based on financial outcomes of different choices but based on different personal considerations then supply side policy initiatives aimed at financial incentives, such as reduced welfare payments, are unlikely to be effective at increasing employment. They will just reduce indigenous income with the associated increase in financial hardship.

The other explanation for low indigenous employment levels is that Indigenous people want to be employed in the mainstream economy, perhaps at much the same rate as anyone else, but they cannot find a job offer to accept (the demand side explanation). When indigenous people apply for jobs they are placed too low on the candidate ranking list and rarely get the chance to accept a job. Their low ranking may be the result of discrimination or their poor skill levels.

This bald distinction between demand and supply explanations for low employment is often made behind closed doors. Different experts often hold one or other of these positions with considerable conviction, but very rarely is the distinction made starkly at conferences like these. The natural response of experts is to blur the distinction between demand and supply, or to emphasise the demand side alone, which they judge to be more politically acceptable. But little is served by this behaviour because these two classes of explanation lead to very different policies. We need to be clearer as to why we are observing poor employment outcomes. Indeed, the relative importance of these two explanations for low employment levels in the Australian community more generally is currently being actively debated among experts and politicians. The consequent

judgement to place more emphasis on supply is beginning to impact on policy in non-indigenous areas of the labour market.

Welfare reforms (the supply side of the labour market)

The important distinction between demand and supply and their impact on recent policy developments can be illustrated by considering proposed changes in welfare policy. Consider, for example, policy changes for lone parents. Lone parents, by and large, receive most of their income from the welfare state in much the same way as Indigenous people. Virtually no lone parent has a full-time mainstream job. Although we don't know the exact proportion it is probably something of the order of 10 to 15 per cent. About 40 per cent of lone parents – a higher proportion than in the Aboriginal community – work part-time. Recent policy developments for this group might parallel future changes for Indigenous people.

In broad terms, the policy judgment has been made that the reason why lone parents have low employment rates is that they are choosing not to work in the mainstream economy because the welfare system is too generous. The policy judgement has been made that there is a need to change the financial balance between work and welfare.

Mr Kevin Andrews, the Minister for Employment and Workplace Relations, has said recently,

We now live in an economy where we don't so much have a shortage of jobs as a shortage of workers. In fact, it has never been a better time in Australia for those who want to work. ... We believe that if you can work you should work (Andrews 2005)

In response to this view, the government has recently decided to change welfare policy for lone parents so that once the youngest child turns seven, lone parent income support will be reduced from a lone parent pension payment to an unemployment allowance payment. For lone mothers who do not work, and do not qualify for a pension, their weekly income will be reduced by \$29 and, in the future, indexed only for price increases and not for the larger increase of

wages. Furthermore, if the lone parent combines work and welfare the loss of income will probably be of the order of \$100 per week. At the same time, the lone parent will be subject to all the work-for-the-dole requirements. The object of the new policy is clear. Life should be less financially comfortable for welfare reliant lone parents with a youngest child over 7 years of age.

Consider, as another example, recent policy changes for those who may receive invalid pensions. Here, government policy is following a similar path to that followed by the lone parent initiatives. There is a clear presumption that it is the supply side that is responsible for the lack of employment among those with a disability and that a significant proportion of those on invalid pensions are choosing not to work. From June, 2006, it will be much harder for individuals to be placed on invalid pensions.

These examples matter for Indigenous people. They matter because they are illustrative of a significant shift of prevailing policy attitudes. There is an increasing conviction that the large number of individuals receiving welfare support is a reflection of individuals being unwilling to work because welfare payments are too high. It seems inevitable that these attitudes will increasingly begin to impact on Indigenous economic and social policy. These examples also matter because Indigenous people, with their heavy reliance on government income support, will be directly and severely affected by the current changes.

It is fairly obvious that we need better data to throw light on the extent to which Indigenous people want to be employed in the mainstream economy but cannot find jobs (the demand side) and the degree to which the low employment level is the result of the impact of traditional values and/or financial incentives (the supply side). This is a crucial issue in that any change in financial incentives directed towards supply responses will make indigenous people

financially worse off if there is an insufficient positive employment response.

The Fair Pay Commission (the demand side of the labour market).

On the demand side of the labour market the Australian economy has not been generating sufficient unskilled jobs over the last three decades. Under these circumstances Indigenous Australians have found it difficult to receive job offers. In other words, there has been a strong demand side influence on Indigenous employment outcomes.

Here the policy stance is clear. Government is of the view that wages are too high for the unskilled and that something should be done, over time, to reduce the relative living standards of the group. To facilitate this process the government has introduced a Fair Pay Commission to prevent significant pay increases for the low paid. This role has not been explicitly announced except to say that employment considerations will play a larger role in wage setting than in the past. In a situation where there is heavy unemployment, and lack of job opportunities among the unskilled, this must mean that unskilled pay levels will fall, at least in relative terms.

It is important that we have a firm view as to the relative importance of demand and supply side influences. If the main problem is the demand side then reducing welfare incomes to change supply side incentives will have weak employment effects and mainly reduce incomes. Similarly, if the supply side is the problem, attempting to create additional jobs for indigenous people by lower wages will also be relatively ineffective. Lower wages will just reduce the income of those employed without the beneficial effect of extra jobs. We should ask therefore what can we learn about the relative importance of demand and supply influences from the 2002 NATSSIS data? I think the answer is that we can learn very little. We need more direct information on the rate of job offers to indigenous people and the rate

at which indigenous people fail to search for jobs and the reasons why.

Further data issues

CDEP

CDEP provides a permanent source of income at the level of unemployment benefits plus an infrastructure loading that reduces poverty in remote areas. In my view CDEP is currently the most important policy instrument available for affecting employment outcomes in remote communities in the short run. CDEP has been the major employment growth industry for Indigenous people, and it is now extremely large, accounting for most of the employment growth of the last two decades (the difference between row 2 and row 3, Table 1). We all need a clear view of what we think about CDEP and the incentive structure that it embodies.

In financial terms, and in the short run at least, the CDEP scheme puts in place incentives that encourage people not to be employed in the mainstream economy and not to move from traditional locations. But the existence of incentives to remain in remote communities does not necessarily mean that large numbers of indigenous people respond. We do not know how many indigenous people are making the financial judgement that life in a remote area on CDEP is much better than moving and trying to find a job somewhere else? If there is a significant long run rejection rate of mainstream jobs because of CDEP this must be against the long run economic interests of the Indigenous community. On the other hand, if CDEP is a scheme where community life is made better for people who really have **no** employment alternatives then we should be less willing to restrict its further growth.

To adequately discriminate between these two views of the impact of CDEP on long run employment opportunities and income growth we need more data that relates to individual CDEP projects, their

participants and the linkages between CDEP growth and mainstream jobs.

Program evaluation

One weakness of NATSSIS type data collected by the ABS is that it is not well suited for program evaluation. To do program evaluation well requires combined administrative and survey data and the responsibility for putting this type of data together must rest with the relevant program departments. Let me give you some indication of the type of data needed.

DEWR has recently provided important administrative evaluation data as part of the Indigenous Employment Policy Evaluation Stage 2. Administrative data like this provides us with a number of important lessons that we cannot learn from ABS data alone. Although the DEWR administrative data in the public arena is only a small fraction of that which is needed, DEWR is, nevertheless, to be congratulated on making some data available.

The first lesson we learn from a consideration of the DEWR data is that administrative data re-emphasizes how difficult it will be to develop effective employment programs. The data makes clear that Indigenous job seekers are extremely poorly qualified. They have very low education levels and very low levels of English competence, see Table 2.

The second lesson we learn from administrative data is that the juxtaposition of administrative data with *NATSISS* and *ABS* type data helps prevent over optimistic interpretations of program evaluation results. Consider the following. Over the last five years, the annual mainstream Non CDEP employment growth of Indigenous employment, revealed by ABS census data, is of the order of 1,000 people per year (row 4, Table 3 and Gregory 2005). DEWR, however, states that during a typical year 38,000 Aborigines are referred to Intensive Assistance (Table 4). This referral rate, as a ratio of the

increase in mainstream employment, is of the order of thirty-eight to one, which suggests that any job finding that can be linked to participation in the job network must be largely replacement of one employed Indigenous person for another. Intensive Assistance seems to add very little to the stock of Indigenous employment.

The third lesson we learn from administrative data is that when individuals are directed towards Intensive Assistance, which is very expensive and designed to help them find employment, many Indigenous individuals choose not to enter the scheme. For example, of the 38,000 Indigenous people referred to Intensive Assistance each year just over fifty percent (20,900) commence the program of Intensive Assistance. Around 17,100 say no thanks and refuse to enter the scheme. Does this mean that Indigenous people are judging that Intensive Assistance is not useful or does it mean that they do not want jobs?

The fourth lesson we learn is that of those who were referred to the scheme 4,560 became employed. Of those who were referred but did not commence the scheme, the increase in employment was approximately the same, 4,370. This suggests a very small impact of the Intensive Assistance scheme, and perhaps no impact at all. DEWR, however, went further and suggested that among those who entered the scheme only 1,360 were employed as a result of participation. The other participants who became employed would have found employment without participating in the scheme. This estimate implies that four per cent of these who enter Intensive Assistance receive a job because of the scheme. This is a very low rate of success.

Finally, Table 4 indicates a nice point to think about. DEWR suggests that the threat of entering Intensive Assistance leads to individuals accepting jobs that they would not otherwise have done. The employment response to this threat suggests an interesting result, namely, that the success rate from the threat of having to participate

in Intensive Assistance is greater than the success rate from participating in the scheme. This prompts the thought that from a financial point of view more emphasis should be placed on threats which are inevitably cheaper than providing training.

To sum up the administrative data indicate that employment training schemes are relatively ineffective. This pessimistic result is not unique to programs directed toward Indigenous people. If non-indigenous program evaluations are conducted they produce similar results. It appears therefore that the lack of employment growth among Indigenous people is not easily fixed by policy initiatives that focus on skill development and job finding skills for adults. Intensive Assistance is the Rolls Royce of job training policy. Government puts a lot of money into the program and yet it seems to pay very low returns. If, as a community, we are to do more in this policy area of developing skills and job finding ability among the unemployed we will need to substantially improve these schemes, perhaps a task that is too difficult.

Concluding comments

To conclude, I think we are well placed in terms of data that describes the difficulties that Indigenous people face, and in terms of data that documents their deep economic and social problems. My own feeling is that we need to know more about the interplay of culture and Indigenous decision making and how to create an environment within which indigenous people can make better choices for themselves. To be thinking of poverty and employment problems in economic terms alone is clearly inadequate. We need to know more about motivation and the mechanisms that can create communities with more productive outcomes.

Policies for Indigenous young people of exceptional talent seem to be working well. For this group there are efficient and effective pathways into professional sport, into universities, into business activities and into the public policy arena. And things are getting better each year.

What is not working at all are policies for the majority of Indigenous people and for the young who do not relate well either to a school environment or to the discipline of a work environment in the mainstream economy. How to design effective policies for these groups and how to collect the right sort of data to help develop good policies is not straightforward.

Finally, as indicated earlier we need more administrative data that relate directly to policy interventions and directly to policy outcomes.

References

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Table 1
Various Employment to Population Ratios for Adult Indigenous Australians
Per cent

	1971	1981	1991	2001	2011
Total Employment-Population					
Taylor/Hunter, Hunter/Kinfu/Taylor			37.6	40.4	36.0
Altman/Biddle/Hunter	42.0	35.7	37.1	41.4	
Mainstream Employment-Population					
Taylor/Hunter, Hunter/Kinfu/Taylor, Altman/Biddle/Hunter	42.0	35.7	32.9	29.5	25.8
Non-Elite Mainstream Employment-Population					
Gregory			28.4	24.1	19.6
Other Employment-Population Outcomes					
Altman/Biddle/Hunter					
Full-time	32.9	19.5	21.9	21.6	
Private	29.7	17.2	20.5	22.9	

Sources: Taylor and Hunter (1998), Hunter, Kinfu and Taylor (2003), Altman, Biddle and Hunter (2005), Gregory (own calculations).

Table 2
Selected characteristics of the Job Network Eligible Population
Per cent of Participants in Categories
2002/03

	Indigenous	Non-Indigenous
Male	63.3	62.6
Less than Year 10 Education	47.7	22.3
English Speaking Ability less than good	10.6	6.2
English Writing Ability less than good	28.3	12.7
From a remote or very remote location	33.7	1.7

Source:

Department of Employment and Workplace Relations (DEWR) 2003. Indigenous Employment Policy Evaluation Stage Two: Progress Report, Evaluation and Program Performance Branch, Labour Market Policy Group, DEWR, Canberra, p28.

Table 3
Employment and Population Changes for Indigenous Australians
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	1991-1996	1996-2001	2001-2006	2006-2011
Population Increase	23.5	33.6	40.6	43.0
Employed	11.9	16.9	9.2	8.6
CDEP	7.5	11.8	3.8	2.7
Mainstream Non CDEP	4.4	5.0	5.5	5.8
Mainstream Non CDEP, Non Elite	1.0	1.4	na	na

Sources:

1991-1996: Taylor and Hunter (1998), Gregory (own calculation),

1996-2011: Hunter, Kinfu and Taylor (2003), Gregory (own calculation).

Table 4
Hypothetical Estimates of Labour Market Circumstances
16 months after being Referred to Intensive Assistance

Referred to Intensive Assistance		<u>38000</u>
Commenced		20900
Employed Due to Participation	1360	
Employed anyway	<u>3200</u>	
Total Employed	4560	
Unemployed		16340
Did not Commence		17100
Employed Due to Compliance	1910	
Employed anyway	<u>2460</u>	
Total Employed	4370	
Unemployed		12730
Totals		
Employed	8930	
Unemployed		<u>29070</u>
Total		<u><u>38000</u></u>

Source:

Department of Employment and Workplace Relations (DEWR) 2003. Indigenous Employment Policy Evaluation Stage Two: Progress Report, Evaluation and Program Performance Branch, Labour Market Policy Group, DEWR, Canberra, p76.